

2011/12 ANNUAL REPORT



Table of Contents

Subject	Subject	Page
	Vision	3-4
	Mayor's Fore-Word	5-6
	Municipal Manager's Fore-Word	7-9
Chapter 1	Overview of the Municipality	10-12
Chapter 2: Section 121 (a) of MFMA	Annual Financial Statements	13-38
Chapter 3: Section 121 (b) of MFMA	Auditor General's Management Report	39-115
Chapter 4: Section 121 (3) D of MFMA	Auditor General's Report	116-123
Chapter 5: Section 46 of MSA	Municipal Annual Performance Report	124-127
Chapter 6: Section 121 E of MFMA	Assessment of Arrears on Municipal Taxes & Services	128
Chapter 7: Section 121 (3) (F) of MFMA	Assessment by Municipality's Accounting Officer in Terms of Section 17 (3) (B)	129
Chapter 8: Section 121 (3) (G)	Audit Response Plan	130-138
Chapter 9: Section 121 (3) (k) of MFMA	Additional Information	139-157
Chapter 10: Section 123 of MFMA	Disclosures	158-170
Chapter 11: Section 79 MSA & MFMA	MPAC Report	171-174
	Conclusion	175

VISION

A high performing rural Municipality driven by continuous improvement of quality of life for Nkandla citizens.

MISSION

We promote and facilitate social and infrastructural investment to achieve sustainable economic development and growth.

PRIORITIES

Human Resource Development

Infrastructural Development

Local Economic Development

Agricultural Development

Cooperate Governance

STRATEGIC OBJECTIVES

1. To encourage community and stakeholders involvement in municipal developmental processes
2. To promote service excellence by developing human capital and capability
3. To increase municipal revenue through sound financial management practices
4. To provide basic infrastructure for service delivery
5. To eradicate poverty and unemployment by facilitating economic growth.

MAYOR'S FOREWORD

In accordance with Section 127 of the Municipal Finance Management Act, I hereby submit the Municipal Annual Report of 2011/12 financial year. Notwithstanding our primary objective of delivering qualitative services to our people, I wish to highlight that the key drive of this Council is to ensure that we achieve a Clean Audit prior to the overall target of 2014.

I have pleasure in announcing that the outcome of the audit for 2011/12 did not regress as we obtained an Unqualified Audit Outcome, but am not content with the fact that we did not improve. Although with less matters raised by the Auditor General, I am hopeful that we will collectively achieve this in this financial year. As always service delivery back-logs remain a major concern, as we seem to moving very slowly in making tangible differences to the communities that expect us to create a conducive environment for poverty alleviation, moral regeneration, sustainable livelihoods and the improvement of quality of lives. These can be achievable if we deliver uninterrupted, regular and quality services.

The limited revenue base results poses numerous challenges when eradicating the service delivery backlogs in, electricity and roads. Further to this, an initiative to find alternative sources of energy was negotiated with DME and as a result of that the Council has been granted an amount of R150m for grid and R60m for non-grid electrification upfront loading programme which is yet to be transferred to Municipal Account in tranches as per our agreement with the Department. This programme is funded through the said system by DBSA where after the Department of Mineral & Energy will pay for the loan for the next three years using funding that would otherwise be due to the Municipality. This is an achievement in terms of service delivery. If it is to be undertaken as promised by the DOE.

Our overall performance achievement against our annual targets at year-end was 87% which is satisfactory taking cognizance of the fact that that we had not filled some of the critical vacancies which are critical towards smooth service delivery.

We have also engaged number stakeholders for support in order to speedily deliver on our services. Such engagements involve ESKOM, Masibambisane, and Department of Energy for finances and programmes. I am hopeful to say if all goes well some of our programmes will be fast-tracked for the benefit of our communities at large.

In conclusion we are approaching the new financial year 2012/13 with positive minds and hoping for the better performance and improvements on this financial 's year performance. Thank you once again for the support we received from Amakhosi, the Community, Councillors and Municipal staff. All the best in our new year.

CLLR A.T. NTULI

MAYOR: NKANDLA LOCAL MUNICIPALITY

MUNICIPAL MANAGER'S FOREWORD

Our Municipality has been engaged in a number of programmes and activities including those that we set targets and measurable outcomes at the beginning of the year. These targets were set in the targets in the context of Municipal Integrated Development Plan that constitute all the needs of our communities. Our community needs are always above the available budget and we largely depend on Government grants.

During 2010/11 financial year, the Municipality performed very well though with some challenges regarding filling of senior managers positions. We were able to achieve Unqualified Audit opinion, which is a sign of heading towards clean audit in 2014.

The filling of senior management during 2011/12 financial year has created balance and effectiveness in the functionality of the whole institution but there were challenges regarding the appointment of other senior manager in the Technical and Community Services departments. With limited resources we have, the Municipal Performance has improved in its performance as compared to the previous year's performance. Last year the Municipality achieved 84 % overall performance.

The Council reviewed its vision, mission and objectives after critically considering its mandate of service delivery. We are vigorously engaging other sector departments to support us to implement projects and create more jobs opportunities for our community.

- | | |
|--------------------|-------------------------------------|
| - Indalo Yethu | - Environmental Affairs |
| - Gravitass | - Environmental Affairs |
| - ESKOM | - Electrification |
| - DOE | - Electrification |
| - Agriculture | - Community Gardens & Food Security |
| - Human Settlement | - Housing Projects |

The MIG programmes which focuses on infrastructural projects development play a huge role in employing community members at implementation stage.

The Municipal Governance structures are all in place however, the functionality has challenges due to among others has role-play of individual structure. Proper training and understanding of responsibilities of governance structures may address this.

In the new year of the Municipality, we have set aside a budget to provide basic training of Councilors and officials to address the gaps we have identified on basic understanding of the Municipal Governance. But it be noted that even under the circumstance the Municipality performance will and was able to achieve 87.4% overall performance of the targets that were set at the beginning of

the financial year. We have improved from the previous year's performance. Our aim is not to regress but to further improve on our service delivery programme to improve the lives of our people.

In conclusion I want to categorically appreciate the support we receive from our community through Amakhosi, Ward Committee structures ,who will always indicate to us when we go wrong and appreciate when we doing right.Officials of the Municipality have shown commitment in their areas of performance though there was sometimes where officials are overworked due to unfilled vacancies who have managed to perform under the conditions.

The Mayor and her Executive Committee has played visible role on matters of Governance in the Municipality. We want to appreciate that and further to encourage the Committee to play the positive role and leadership they have shown thus far.

MR. ME NGONYAMA
MUNICIPAL MANAGER:
NKANDLA LOCAL MUNICIPALITY

CHAPTER 1: OVERVIEW OF THE MUNICIPALITY

The legal framework declares that each Municipality must for each financial year prepare an annual report in accordance with section 46 of the Municipal Systems Act of 2000 and Chapter 12 of the MFMA no.56 of 2003. This report was compiled in relation to the said criteria that:

- Municipalities provide records of the activities during the financial year.
- Provide record on performance against the budget of the Municipality; promote accountability to the local community for the decisions made throughout the year.
- The Annual Financial Statement of the year.
- Auditors – General's Audit report in terms of section 126(3) on those financial statements and of section 45 (b) of the Municipal Systems Act.
- And of Section 3 (a-k).

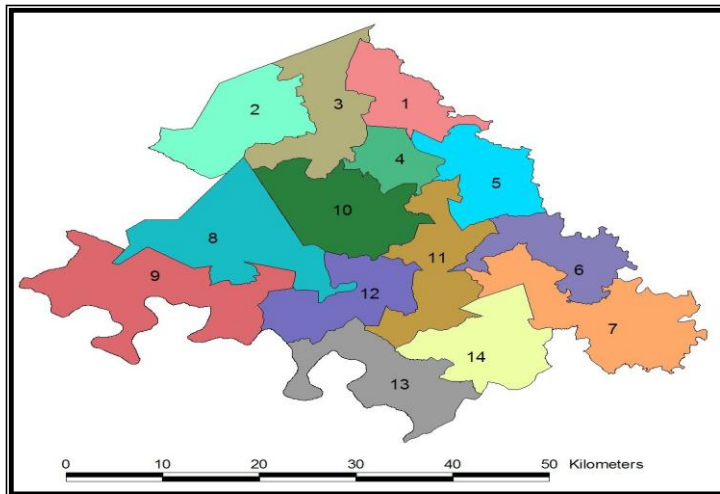
For the very reason that we are a deep rural Municipality, it is our obligation to provide effective and efficient sustainable services to improve the quality of life for Nkandla citizens. We have a sound administrative system that is committed to fulfill our Municipality mandate to provide service to the community. The Integrated Development Plan and SDBIP create an enabling environment to encourage growth and development in the Municipality.

This report elaborates more on issues focused on 2011/12 financial year to ensure that we deliver on our mandate.

GEOGRAPHIC & DEMOGRAPHIC PROFILE

The verification process is informed by Chapter 6, Section 38-49 of the Municipal Systems Act no.32 of 2000, Municipal Regulations for Municipal Managers and Managers directly Accountable to Municipal Managers and Section 72 of the Municipal Finance Management Act no 56 of (North Eastern part of KZN and deep rural Municipality).

Nkandla Local Municipality within KZN Province



NKANDLA PROFILE

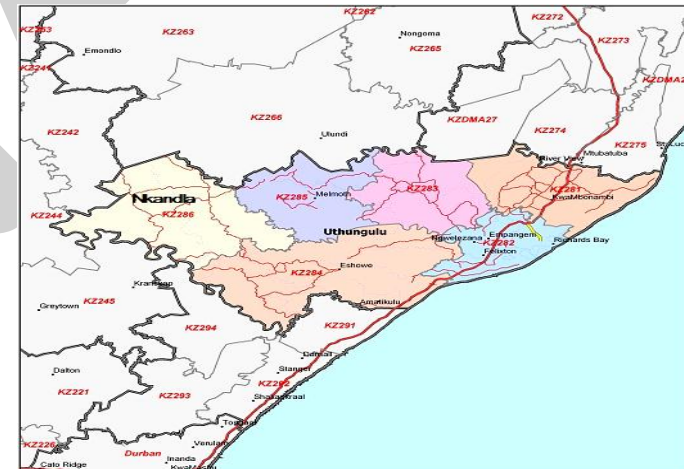


TABLE: BASIC INFORMATIONINFORMATION

FIGURES

Municipal Code

KZ 286

Population

127 451(2001 Stats South Africa)

Total number of Councilors

27

Municipal Wards

14

Population per Wards

9000

% of income sources at Nkandla

16

Subsistence &Agriculture

13

Informal Sector

13

Local Wages

13

Government Grants

05

50

Traditional Authorities

17

CHAPTER 2 –SECTION 121 (3) A OF MFMA

ANNUAL FINANCIAL STATEMENTS

NKANDLA MUNICIPALITY

ACCOUNTING POLICIES

for the year ended 30 June 2012

1 BASIS OF ACCOUNTING

1.1 BASIS OF PRESENTATION

The annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. These annual financial statements have been prepared in accordance with the Generally Recognized Accounting Practice (GRAP) issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003).

These standards are summarized as follows:

GRAP 1	Presentation of Financial Statements
GRAP 2	Cash Flow Statement
GRAP 3	Accounting Policies , Changes in Accounting Estimates and Errors
GRAP 4	The Effects of Changes in Foreign Exchange Rates
GRAP 5	Borrowing Costs
GRAP 9	Revenue from Exchange Transactions
GRAP 12	Inventories
GRAP 13	Leases
GRAP 14	Events After the Reporting Date
GRAP 17	Property, Plant and Equipment
GRAP 19	Provisions, Contingent Liabilities and Contingent Assets
GRAP 100	Non-current Assets Held for Sale and Discontinued Operations
GRAP 102	Intangible Assets

STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2012

	Note	2012 R	2011 R Restated
ASSETS			
NON- CURRENT ASSETS		211 534 218	184 831 586
Property, Plant and Equipment	3	210 930 561	184 580 056
Intangible Assets	4	565 657	213 530
Investments property	4.1	38 000	38 000
CURRENT ASSETS		55 585 827	49 246 723
Accounts receivables	6	6 657 251	9 185 270
VAT receivables	6	3 075 794	737 597
Cash and cash equivalents	5	45 852 782	39 323 856
TOTAL ASSETS		267 120 045	234 078 309
EQUITY AND LIABILITIES			
EQUITY		221 119 655	195 855 497

Accumulated Surplus/ (Deficit)	1	221 119 655	195 855 497
NON CURRENT LIABILITIES		3 927 907	3 705 573
Non-Current Provisions	7.1	3 927 907	3 705 573
CURRENT LIABILITIES		42 072 483	34 517 243
Provisions	7.2	1 218 226	808 672
Post-Retirement Benefits	7.3	5 011 758	
Unspent Conditional Grant and Receipts	2	31 919 420	29 419 650
Accounts payables	8	3 923 079	4 288 921
TOTAL LIABILITIES		46 000 390	38 222 816
TOTAL EQUITY AND LIABILITIES		267 120 045	234 078 309

NKANDLA MUNICIPALITY

STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 30 JUNE 2012

	Note	Actual 2012 R	Actual 2011 R
-	-		
REVENUE			
Rental of Facilities and equipment		576 797	340 800
Interest Earned - External Investment		1 605 717	1 261 954
Interest Earned - Outstanding Receivables		66 686	117 987
Government and Provincial grants and subsidies	14	80 746 699	57 488 260
Property Rates		1 493 944	1 422 804
Refuse Removal		378 042	126 014
Sundry Income	15	358 059	585 103
Profit/Loss on disposals		39 945	-
Electricity		2 568 878	7 220 645
TOTAL REVENUE		87 834 767	68 563 567
EXPENDITURE			
Employee Related Costs	11	11 553 847	11 466 346
Remuneration of Councillors	12	4 872 124	4 881 049

Provision for Bad Debts	6	1 299 002	1 659 191
Depreciation	13	4 177 662	2 844 064
General expenses	16	30 059 379	15 288 328
Repairs and maintenance		498 723	661 125
Operating Lease	15	966 225	543 399
Finance Costs	10	222 334	205 573
Grant Expenditure		6 849 518	1 987 324
Total Expenditure		60 498 814	39 536 399
Net Surplus/ (Deficit)		27 335 954	29 027 167

NKANDLA MUNICIPALITY

STATEMENT OF CHANGES IN NET ASSETS

as at 30 June 2012

	Notes	Accumulated Surplus/ Deficit R	Total R
-			
2 011			
Restated Balance as at 1 July 2010		166 828 329	166 828 329
Change in accounting policy		-	-
Restated Balance		166 828 329	166 828 329
Surplus/(deficit) for the year		29 027 167	29 027 167
Correction of Prior Year Error		-	-
Balance as at 30 June 2011		195 855 496	195 855 496
Surplus/(deficit) for the year		27 335 954	27 335 954
Correction of Prior Year Error		-2 071 792	-2 071 792
Balance as at 30 June 2012		221 119 655	221 119 655

NKANDLA MUNICIPALITY			
CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2012			
	Note	2012 R	2011 R
CASH FLOW FROM OPERATING ACTIVITIES			
Cash receipts from ratepayers, government and other		97 900 530	59 671 299
Cash paid to suppliers and employees		(55 594 213)	(29 600 026)
Cash generated from operations		42 306 317	30 071 273
Interest received		1 672 403	1 379 941
Interest paid		(222 334)	(205 573)
Net cash flows from operating activities		43 756 387	31 245 641
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	3	(36 753 553)	(17 496 439)
Purchase of Intangible Property	4	(396 922)	-
Proceeds on disposal of property, plant and equipment		(76 985)	-
Decrease in Government Grants		-	-
Decrease in non-current receivables		-	-
(Increase)/Decrease in non-current investments		-	-
Net cash flows from investing activities		(37 227 460)	(17 496 439)
CASH FLOWS FROM FINANCING ACTIVITIES			
Decrease in Long Term Liabilities		-	-
Increase/(Decrease) in consumer deposits		-	-
Non-operating income receipted in provisions/reserves		-	-
Non-operating expenditure charged against provisions/reserve		-	-
Net cash flows from financing activities		-	-
NET INCREASE IN CASH AND CASH EQUIVALENTS		6 528 926	13 749 202
Cash and cash equivalents at the beginning of the year		39 323 856	25 574 655
Cash and cash equivalents at the end of the year		45 852 782	39 323 856
		(6 528 926)	(13 749 201)

NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2012

		2012	2011
		R	R
1	ACCUMULATED SURPLUS		
	Accumulated surplus at the beginning	195 855 496	150 842 149
	Surplus at the end of the year	27 335 954	29 027 167
	Correction of Prior Year error	(2 071 795)	15 986 180
	Capital Development Fund	-	-
	Public Improvement Fund	-	-
	Public Improvement Fund Advances	-	-
		221 119 655	195 855 496
2.	UNSPENT CONDITIONAL GRANT		
	Finance Management Grant (FMG)	201 224	288 208
	Municipal systems improvement grant (MSIG)	41 012	307 554
	Electrification grant	14 576 658	9 324 112
	Municipal infrastructure grant (MIG)	6 824 859	8 561 236
	Elearning Grant	167 231	167 230
	Sports and Recreation	1 282 104	137 051
	Cyber cadet grant	188 653	54 213
	Small Town rehabilitation grant	5 087 509	10 580 046
	Qedisimo Project	2 750 000	-
	Facility Grant	750 000	-
	Library Grant	50 171	-
	Housing development grant	-	-
		31 919 420	29 419 650

PROPERTY, PLANT AND EQUIPMENT (continued)										
<i>Reconciliation of carrying value</i>	<i>Land</i>	<i>Buildings</i>	<i>Other Structures</i>	<i>Landfill site</i>	<i>Other</i>	<i>Furniture & Office Equipment</i>	<i>Computer equipment</i>	<i>Motor vehicle</i>	<i>WIP</i>	<i>Total</i>
	R	R	R	R	R	R	R	R		R
As at 1 July 2011	104 005 940	6 757 520	61 236 510	2 507 415	645 655	361 853	216 700	230 355	8 656 108	184 618 056
Costs/Valuation	104 005 940	7 727 581	65 959 607	2 892 562	1 830 009	1 378 412	1 892 742	1 319 033	8 656 108	195 661 994
Change in accounting estimate	0	0	0	0	0	0	0	0	0	0
Accumulated depreciation and impairment losses	0	(970 061)	(4 723 097)	(385 147)	(1 184 354)	(1 016 559)	(1 676 042)	(1 088 678)	0	(11 043 938)
Acquisitions	0	0	22 190 955	0	0	0	121 885	0	14 440 712	36 753 553
Work In Progress		0	0							0
Depreciation	0	(154 297)	(4 031 485)	(193 366)	(149 021)	(107 635)	(116 746)	619 685	0	(4 132 865)
Disposal		0	0		(2 000)	(11 816)		(695 601)	0	(709 417)
Write Down/Reclassification	0	(3 100 000)	(2 498 765)	0	0	0	0	0	0	(5 598 765)
Impairment loss	0	0	0	0	0	0	0	0	0	0
Reversal of impairment loss	0	0	0	0	0	0	0	0	0	0
As at 30 JUNE 2012	104 005 940	3 503 223	76 897 215	2 314 049	494 634	242 401	221 839	154 439	23 096 821	210 930 561
Costs/Valuation	104 005 940	4 627 581	85 651 797	2 892 562	1 828 009	1 366 596	2 014 627	623 432	23 096 821	226 107 365
Accumulated depreciation and impairment losses	0	(1 124 358)	(8 754 582)	(578 513)	(1 333 375)	(1 124 194)	(1 792 788)	(468 993)	0	(15 176 804)
Refer to Appendix B for more detail on property, plant and equipment										
PROPERTY, PLANT AND EQUIPMENT										
<i>Reconciliation of carrying value</i>	<i>Land</i>	<i>Buildings</i>	<i>Other Structures</i>	<i>Landfill site</i>	<i>Other</i>	<i>Furniture & Office Equipment</i>	<i>Computer equipment</i>	<i>Motor vehicle</i>	<i>WIP</i>	<i>Total</i>
	R	R	R	R	R	R	R	R	R	R
As at 1 July 2010	104 005 940	6 910 622	32 119 008	2 530 992	753 055	442 528	482 142	352 350	4 058 018	245 870 860
Costs/Valuation	104 005 940	7 727 581	36 231 614	2 892 562	1 790 628	1 332 259	1 768 217	1 319 033	4 058 018	482 428 637
Change in accounting policy	0	0	0	0	0	0	0	0	0	0
Accumulated depreciation and impairment losses	0	(816 959)	(4 112 606)	(361 570)	(1 037 573)	(889 731)	(1 286 075)	(966 683)	0	(236 557 777)
Acquisitions	0	0	29 727 993	0	39 381	46 153	124 525	0	4 598 091	29 938 052
Depreciation	0	(153 102)	(610 491)	(23 577)	(146 781)	(126 828)	(389 967)	(121 995)	0	(1 572 741)
Impairment loss	0	0	0	0	0	0	0	0	0	0
Reversal of impairment loss	0	0	0	0	0	0	0	0	0	0
As at 30 June 2011	104 005 940	6 757 520	61 236 510	2 507 415	645 655	361 853	216 700	230 355	8 656 109	184 618 057
Costs/Valuation	104 005 940	7 727 581	65 959 607	2 892 562	1 830 009	1 378 412	1 892 742	1 319 033	8 656 109	195 661 995
Accumulated depreciation and impairment losses	0	(970 061)	(4 723 097)	(385 147)	(1 184 354)	(1 016 559)	(1 676 042)	(1 088 678)	0	(11 043 938)
Refer to Appendix B for more detail on property, plant and equipment										

4	Intangible Assets		
		2012	2011
		<u>R</u>	<u>R</u>
	Reconciliation of Carrying Value		
	as at 1 July 2011	213 530	46 024
	Costs	318 053	55 162
	Capital under Construction WIP		0
	Change in accounting policy		
	Correction of Error		
	Accumulated depreciation and impairment losses	(104 523)	(9 138)
	Acquisitions	396 922	0
	Depreciation	(50 528)	(95 385)
	Disposal cost		0
	Disposal Accumulated Depreciation		
	Loss on sale		262 891
	Cost/Revaluation		262 891
	Accumulated depreciation and impairment losses	0	0
	Impairment loss/Reversal of impairment loss		
	Transfers		
	*Other movements		
	as at 30 June 2012	565 657	213 530
	Costs	714 975	318 053
	Accumulated depreciation and impairment losses	(149 318)	(104 523)
	Carrying Value at end of the Year	565 657	213 530

4.1	INVESTMENT PROPERTY			
	The investment property represents the piece of land owned by Municipality and disclosed at fair value			
	2011			
		Cost/Valuation	Accumulated Depreciation	Carrying Value
	Investment property	38000	0	38000
	2012			
		Cost/Valuation	Accumulated Depreciation	Carrying Value
	Investment property	38000	0	38000
5	CASH AND CASH EQUIVALENTS			
	Cash on hand		-	8 807
	Cash at bank		2 635 425	116 323
	Call deposits		43 217 358	39 198 726
			45 852 782	39 323 856
	The Municipality has the following bank accounts: -			
	Current Account (Primary Bank Account)			
	ABSA BANK - Public Sector		2 635 425	116 323
	Bank statement balance at end of year		2 635 425	116 323
	Call Deposit			
	Absa Call account		15 395 483	10 745 497
	ABSA MIG call account		1	4 250 470
	ABSA Conditional call accounts		27 821 874	24 202 759
	Total Call Deposits		43 217 358	39 198 726

6. TRADE AND OTHER RECIEVABLES FROM EXCHANGE TRANSACTIONS			
	Rates&Refuse Debtors	12 889 888	13 832 083
	Less: Provisions for bad Debts	(7 748 319)	(6 449 317)
		5 141 569	7 382 766
	Debtors controll vat	814 577	1 096 904
	Refuse Debtors	-	-
	Sundry Debtors - Suspense	-	-
	Sundry Debtors	701 104	705 600
		6 657 251	9 185 270
6.1.	Rates, Refuse and Electricity : Ageing		
	Current (0 - 30 days)	1 192 383	489 290
	31 - 60 Days	252 248	1 324 001
	61 - 90 Days	8 649 968	481 125
	91 - 120 Days	-	10 461 804
	Less provision for doubtfull debts	(7 748 319)	(6 449 317)
	Total	2 346 280	6 306 903
	Reconciliation of the doubtful debt provision		
	Balance at beginning of the year	6 449 317	4 790 126
	Contributions to provision	1 299 002	1 659 191
	Doubtful debts written off against provision	-	-
	Reversal of provision	-	-
	Balance at end of year	7 748 319	6 449 317
	OTHER DEBTORS		
	Sundry Debtors	701 104	705 600
	VAT Receivable		
	Value Added Tax	3 075 794	737 597
	VAT is payable on the receipts basis. VAT is paid over to SARS only once payment is received from debtors.		
7. PROVISIONS			
7.1	Non - Current Provisions		
	Provision for rehabilitation of landfill site	3 927 907	3 705 573
7.2	Current Provisions		
	Leave	1 136 539	808 672
	Provision for LONG SERVICE	81 687	-
		1 218 226	808 671.81
7.3	Provision for Post retirement benefits - Medical aid	5 011 758	-
	Total Provisions	10 157 891	4 514 245
	Provisions for leave pay was made based budgeted figure in the budget.		
	Calculated based on 15days multiply by applicable rate of each employee.		
8. ACCOUNTS PAYABLES			
	Trade Creditors	-	-
	Other payables	1 108 980	754 801
	Other Deposit	-	-
	Accruals	419 266	2 201 195
	Suspence Clearing	-	-
	Income recieved in advance	2 394 834	1 332 925
	Deposit Townhall	-	-
		3 923 079	4 288 921

9. AUDITORS' REMUNERATION			R	R
	Paid during the year		1 333 123	897 627
	Total Auditors' remuneration		1 333 123	897 627
10. FINANCE TRANSACTIONS				
	Total external interest earned/(paid):			
	Interest earned		1 672 403	1 261 954
	Interest paid/ Finance cost		-222 334	-205 573
			1 450 069	1 056 381
11. EMPLOYEE RELATED COSTS				
	Salaries & Wages		8 674 775	8 634 625
	Contributions for UIF, pension and medical aids		1 560 511	1 414 378
	Travel, motor car, other allowances		548 275	777 629
	Housing benefits		61 980	34 056
	Overtime payments		80 141	66 183
	Bonus		546 479	539 476
	Long service		81 687	-
	Less: Employee costs included in other expenses		-	-
	Total Employee Related Costs		11 553 847	11 466 347
Remuneration of the Municipal Manager				
	Annual Remuneration		432 634	132 028
	Travelling Allowance		288 422	-
	Performance Bonuses		-	73 039
	Other (Backpay)		-	188 186
	Total		721 056	393 253
Remuneration of the Chief Financial Officer			R	R
	Annual Remuneration		354 665	372 495
	Travelling Allowance		99 000	108 000
	Performance Bonuses		-	-
	Backpay Salary adjustment		150 026	140 330
	Other - GTZ Consulting Fees		799 556	8 463
	Total		1 403 246	629 288
Remuneration of Individual Executive Directors Year ending 30 June 2012		Community Services	Technical Services	Corporate Services
	Annual Remuneration	-	408 139	41 536
	Travelling Allowance	-	137 500	10 200
	Bonus	-	-	-
	Acting Allowance	-	2 781	-
	Other (Backpay & Leave Pay)	-	125 718	38 995
	Total	-	674 139	90 730
Year ending 30 June 2011		Community Services	Technical Services	Corporate Services
	Annual Remuneration	-	423 072	124 607
	Travelling Allowance	-	150 000	30 600
	Bonus	-	47 756	-
	Acting Allowance	-	65 734	-
	Other (Backpay)	-	11 332	116 984
	Total	-	697 894	272 191
12. COUNCILLORS' REMUNERATION				
	Mayor's allowance		316 735	291 029
	Deputy Mayor		253 210	235 964
	Speaker		253 210	236 464
	Executive Committee		711 989	650 233
	Ordinary Councillors		3 336 980	3 467 359
	Total Councillors' Remuneration		4 872 124	4 881 049
In-kind Benefits				
	The Mayor is provided with an office			

		2 012	2 011
		R	R
13. DEPRECIATION AND AMORTISATION EXPENSE			
Property, plant and equipment		4 127 134	2 844 064
Intangible assets		50 528	-
Total depreciation and amortisation		4 177 662	2 844 064
14. GOVERNMENT GRANTS AND SUBSIDIES			
Equitable Share		40 191 000	34 331 846
Conditional Grants		40 555 699	19 822 622
Transfer From Uthungulu		-	3 333 792
		80 746 699	57 488 260
Equitable Share			
In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.			
Municipal Infrastructure Grant (MIG)			
Balance unspent at beginning of year		8 561 236	10 199 090
Current year receipts		17 887 000	14 872 000
Conditions met - transferred to revenue		(19 576 038)	(16 509 855)
Conditions still to be met - remain liabilities		6 872 198	8 561 235
Finance Management Grant (FMG)			
Balance unspent at beginning of year		288 208	526 470
Current year receipts		1 500 000	1 500 000
Conditions met - transferred to revenue		(1 586 984)	(1 738 262)
Conditions still to be met - remain liabilities		201 224	288 208
Municipal System Improvement Grant (MSIG)			
Balance unspent at beginning of year		307 554	332 212
Current year receipts		790 000	750 000
Conditions met - transferred to revenue		(1 056 542)	(774 658)
Conditions still to be met - remain liabilities		41 012	307 554
Electrification Grant			
Balance unspent at beginning of year		9 324 112	-
Current year receipts		12 000 000	10 000 000
Conditions met - transferred to revenue		(6 747 453)	(675 888)
Conditions still to be met - remain liabilities		14 576 659	9 324 112
Elearning Grant			
Balance unspent at beginning of year		167 230	167 230
Current year receipts		-	-
Conditions met - transferred to revenue		1	-
Conditions still to be met - remain liabilities		167 231	167 230
Sport and Recreation Grant			
Balance unspent at beginning of year		137 051	137 051
Current year receipts		2 775 000	-
Conditions met - transferred to revenue		(1 629 948)	-
Conditions still to be met - remain liabilities		1 282 103	137 051
Cyber cadet Grant			
Balance unspent at beginning of year		54 213	54 213
Current year receipts		229 000	-
Conditions met - transferred to revenue		(94 560)	-
Conditions still to be met - remain liabilities		188 653	54 213
Qedisimo Projects			
Balance unspent at beginning of year		-	-
Current year receipts		2 750 000	-
Conditions met - transferred to revenue		-	-
Conditions still to be met - remain liabilities		2 750 000	-
Facility Grant			
Balance unspent at beginning of year		-	-
Current year receipts		750 000	-
Conditions met - transferred to revenue		-	-
Conditions still to be met - remain liabilities		750 000	-
Library Grant			
Balance unspent at beginning of year		-	-
Current year receipts		233 340	-
Conditions met - transferred to revenue		(183 169)	-
Conditions still to be met - remain liabilities		50 171	-
Small Town Rehabilitation Grant			
Balance unspent at beginning of year		10 580 046	11 198 456
Current year receipts		4 000 000	-
Conditions met - transferred to revenue		(9 492 537)	(618 410)
Conditions still to be met - remain liabilities		5 087 509	10 580 046

15	Other Income		2 012	2 011
	Tender Monies		78 681	84 256
	Wood Sales		1 408	1 217
	Hall Hire		36 666	18 583
	Building Plan Fee		-	4 474
	TLB Income		7 623	2 933
	Taxi rank permit		11 223	-
	Lindela Services		16 500	-
	Taxi and bus stand license		6 645	-
	Sportsfield		9 373	-
	Burial fees		1 967	-
	Cemetries		-	8 206
	Commision received		13 591	46 187
	Rates on penalties		20 044	384 719
	Connection Fee		22 000	5 882
	Licence and Permit		-	11 194
	Libray Fees		9 090	10 049
	Meter Testing		-	-
	Refund		123 248	3 404
			358 059	581 104
	PROPERTY RATES			
	Rates are levied on the following properties as per the valuation roll.			
	Valuations			
	Agriculture		3 291 000	3 291 000
	Residential		14 924 500	14 924 500
	Business		19 021 000	19 021 000
	State owned Property		55 684 000	55 684 000
	State owned Land		207 768 100	207 768 100
	Vacant Land		748 000	748 000
	Place of Worship		2 898 000	2 898 000
	Total Property Valuations		304 334 600	304 334 600
	Valuations on land and buildings are performed every four years. The last valuation came into effect on 1 November 2008.			
	A general rate are applied.			
	'-Business	0.0207c in the Rand		
	-Residential	0.0196c in the Rand		
	-State Owned	0.0207c in the Rand		
	-Vacant Land	0.0219c in the Rand		
	-Place of Worship	0.0115c in the Rand		

	2 0 1 2 R	2 0 1 1 R
Rebates of the following rates are applied:		
100% of market value of Ingonyama Trust Land		
100% of market value of residential properties less than R17 000		
100% of market value of worshipping properties		
First R50 000 on any residential properties		
25% of market value less exemption for phasing in discount		
4% of market value less exemption for all agricultural properties		
4% of market value less exemption for owners who illegible pensioners		
4% of market value less exemption for indigent owners		
42% of market value less exemption and rebates from all categories is reserved for relief during disaster		
SERVICE CHARGES		
Sale of electricity	2 568 878	7 220 645
Refuse removal	378 042	126 014
	2 946 920	7 346 659
BULK PURCHASES		
Electricity	6 080 358	6 286 168
Total Bulk Purchases	6 080 358	6 286 168
Operating leases		
Operating leases - lessee		
Within one year	966 225	579 646
In the second to fifth year inclusive	167 397	553 976
After five years	188 300	-
Total	1 321 922	1 133 622
Operating Leases consists of the following:		
Operating lease payments represent rentals payable by the municipality for certain of its office properties. Leases are negotiated for an average term of five years for printers, three years for tracker and sanitation systems and the lease period for motor vehicles are within the ranges of two to three years. Lease rentals for printers escalate from 12% to 15% or the increase in lease rentals is linked to the interest rate, over the lease periods. Contingent rentals are dependant on the prime interest rate		
		29
Operating leases – as lessor		
Minimum lease payments due		
Within one year	966 225	543 399
In second to fifth year inclusive	(21 478)	401 348

		2 012 <u>R</u>	2 011 <u>R</u>
	Operating Leases consists of the following:		
	Certain of the municipality's land and building is held to generate rental income. Rental of land and building is expected to generate rental yields of variable % on an ongoing basis (depending on municipal tariff rates). Lease agreements have terms from 5 to 30 years.		
	RENTAL OF FACILITIES AND EQUIPMENT		
	Rental of facilities	576 797	340 800
	Total rentals	576 797	340 800
	INTEREST EARNED - EXTERNAL INVESTMENTS		
	Bank	29 118	45 051
	Financial assets	1 643 285	1 219 903
	Total interest	1 672 403	1 219 903
	INTEREST EARNED - OUTSTANDING RECEIVABLES		
	Property Rates	909 935	117 987

16. GENERAL EXPENSES					
	Included in general expenses are the following:-				
	ACCOMMODATION EXPENSES	504 095	206 103	297 991.52	
	ADVERTISING	246 952	158 584	88 368.28	
	ART & CULTURE COMPET	-	61 968	-61 968.00	
	BUSARIES - NEW	62 690	33 567	29 123.00	
	AUDIT FEES EXTERNAL	1 333 123	897 627	435 496.44	
	BANK CHARGES	36 941	35 977	964.49	
	DEPRECIATION	-	-	-	
	CLEANING & TEAS	138 391	314 378	-175 986.97	
	IT SUPPORT	299 115	255 621	43 494.32	
	IT NETWORK SUPPORT HP	-	20 255	-20 255.00	
	SECURITY	1 362 630	415 953	946 677.09	
	HOUSING PLAN	(966)	490	-1 456.00	
	LIBRARY AND INFORMATION SYSTEM	138 425	200 435	-62 009.82	
	HIV/AIDS PROGRAMME	-	22 341	-22 341.00	
	DELEGATION FEE	183 169	(290)	183 459.35	
	RENTALS PLANT & VEHICLE	-	-	-	
	ENTERTAINMENT & FUNCTIONS	43 185	24 080	19 105.00	
	SPATIAL PLANNING	2 676	27 796	-25 120.00	
	IT SHARED SERVICES	172 746	272 118	-99 372.00	
	FUEL & OIL	472 084	705 272	-233 188.11	
	PUBLIC PARTICIPATION	222 168	130 205	91 963.00	
	FREE BASIC SERVICES	279 122	278 779	343.14	
	INSURANCE	214 790	422 465	-207 675.24	
	KWANALOGA SUBSCRIPTIONS	110 000	100 000	10 000.00	
	LEGAL FEES	461 217	163 435	297 781.65	
	LICENCES	44 239	34 117	10 121.87	
	MEMBERSHIP/SUBSCRIPTIONS	33 227	40 722	-7 494.82	
	PMS SUPPORT	118 511	59 741	58 770.08	
	CELL CONTRACT	321 809	195 457	126 352.08	
	POSTAGE & TELEPHONE	494 772	637 002	-142 230.15	
	PRINTING & STATIONERY	292 580	476 191	-183 611.31	
	WATER PURCHASES	316 740	183 715	133 025.03	
	STORES & MATERIAL	-	4 014	-4 014.00	
	SEWER CHARGES	34 809	116 427	-81 618.23	
	HIRE OF EQUIPMENT	214 120	53 771	160 348.67	
	S & T	354 455	180 584	173 870.65	
	SPORTS & RECREATION	506 587	283 088	223 498.73	

			2 012	2 011
			<u>R</u>	<u>R</u>
16. GENERAL EXPENSES CONT				
	STAFF TRAINING		643 028	73 171
	ELECTRICITY PURCHASES		6 080 358	6 286 168
	GIS PRINTING & STATIONERY		-	7 525
	PROFESSIONAL FEES		1 184 551	541 274
	LED		-	148 933
	UNIFORMS		100 961	31 928
	DISABILITY		81 688	23 880
	YOUTH PROGRAM		-	139 515
	SOC DEV -INTEGRATED EARLY CHILDHOOD		111 785	67 063
	SMALL OFFICE EQUIPMENT		39 930	1 564
	AUDIT COMMITTEE		147 097	51 618
	INTERNAL AUDIT UNIT		357 624	225 737
	COMMUNITY SAFETY		1 467 624	720 936
	COMMUNICATIONS AND GOVERNANCE		149 662	-
	YOUTH DAY		176 296	-
	FMG EXPENDITURE		1 380 395	-
	CULTURAL DEV & PROMOTIONS		84 550	-
	LOCAL ECONOMIC DEVELOPMENT		50 682	-
	LINDELA THUSONG SERVICES CEN		86 520	-
	MSIG EXP		1 056 542	-
	DEPT MUNICIPAL ACCOUNTS		1 567 733	-
	INSURANCE - WCA		3 059	-
	WOMEN EMPOWERMENT & DEVELOPM		55 350	-
	HIV/AIDS PROGRAMME		127 701	-
	VAT RECOVERED		330 980	-
	SDL		131 140	-
	SENIOR CITIZENS		12 750	-
	POST RETIREMENT BENEFITS		5 011 758	-
	OTHER		277 346	-
	LEAVE		327 867	(89 098)
			30 059 379	15 242 202

17.	CASH GENERATED BY OPERATIONS			
	Cash receipts from ratepayers, government and other			
	Sales of goods and services	5 433 964	8 769 462	
	Grants received	89 003 691	57 488 260	
	Interest received	1 672 403	1 379 941	
	Other receipt	934 856	925 902	
	Interest earned	(1 672 403)	(1 379 941)	
	(Increase)/Decrease in trade receivables	2 528 019	(7 259 842)	
	Prior year adjustment	-	(252 483)	
	Other assets	-	-	
	Cash receipts from ratepayers, government and other	97 900 530	59 671 299	
	Cash paid to suppliers and employees			
	Employee costs	16 425 971	16 347 395	
	Other payments	39 595 862	20 139 367	
	Contribution to provisions- current	(631 888)	(116 475)	
	Increase/(Decrease) in conditional grants	(2 499 770)	(6 829 337)	
	Increase in property, plant and equipment	-	-	
	Increase/(Decrease) in trade payables	365 842	(209 300)	
	(Increase)/Decrease in VAT	2 338 197	268 376	
		55 594 213	29 600 026	
	Cash generated from operations	42 306 317	30 071 273	
	Reconciliation of Net Surplus to Cashflow Generated from operations			
	Net Surplus for the year	27 335 954	29 027 167	
	Adjustment for:			
	Depreciation	4 177 662	(2 844 064)	
	Prior Year Correction of Error	-	-	
	Interest paid	-	-	
	Loss on Sale of Assets	-	-	
	Interest earned	(1 605 717)	(716 364)	
	(Increase)/Decrease in trade receivables	2 528 019	(2 086 855)	
	Increase in property, plant and equipment	-	-	
	Contribution to provisions- current	631 888	116 475	
	Increase/(Decrease) in conditional grants	2 499 770	6 829 337	
	Increase/(Decrease) in trade payables	(365 842)	209 300	
	(Increase)/Decrease in VAT	(2 338 197)	(268 376)	
	Cash generated from operations	32 863 537	30 266 620	

			2 012 R	2 011 R
18.	CONTINGENT LAIBILITIES			
	No contingent laibility			
19.	CAPITAL COMMITMENTS			
	Commitments in respect of capital expenditure			
	-approved and contracted for		37 702 081	25 684 534
	-approved but not yet contracted for		-	-
			37 702 081	25 684 534
	This expenditure will be financed from			
	-internal sources			
	-external sources		-	-
	National Grant		37 702 081	25 684 534
	Provincial government		-	-
			37 702 081	25 684 534

20 Statement of comparative and actual information				
Financial performance				
	Final budget	Actual Outcome	Variance	Actual Outcome as % budget
Propety rates	1 600 000	1 493 944	(106 056)	93%
Service charges	6 418 942	2 946 920	(3 472 022)	46%
Transfers recognised grants	83 886 000	80 746 699	(3 139 301)	96%
Other own revenue	2 349 098	2 647 205	298 107	113%
TOTAL INCOME	94 254 040	87 834 767	(6 419 273)	93%
Employee costs	17 429 533	11 553 847	(5 875 686)	66%
Remuneration of councillors	4 714 863	4 872 124	157 261	103%
Transfers and grants	33 342 729	6 849 518	(26 493 211)	21%
Other own expenditure	27 288 422	37 223 325	9 934 903	136%
TOTAL EXPENDITURE	82 775 547	60 498 814	(22 276 733)	327%
Surplus/(Deficits)	11 478 493	27 335 954	15 857 461	-233%

21 Irregular expenditure			
Reconciliation of irregular expenditure			
Opening balance		2 250 675	-
Irregular expenditure for the year		29 817 538	2 250 675
Fruitless and wasteful expenditure current year		22 651	-
Condoned or written off by Council		(30 443 506)	-
Transfer to receivables for recovery – not condoned		18 535	-
Irregular (cash receipted but not banked. Pending investigation)& I		1 665 893	2 250 675
	2011		
Incident			
<i>Irregular expenditure Officials from SCM and Finance did not attend the evaluation committee meeting and only three Senior Managers attended the Adjudication Meeting instead of four.</i>			
	2012		
Incident			
<i>Irregular expenditure is mainly as a result of bid committees not properly constituted, fruitless and wasteful expenditure expenditure is as a result of legal fees instuted because of the non payment of the creditor, another irregular expenditure is as a result of cash receipted but not banked.</i>			
21.1 MATERIAL LOSSES - ELECTRICITY			
Opening balance		-	-
Electricity Purchases		6 080 358	-
Electricity Sales		2 568 878	-
Loss for the year		3 511 479	-
Reasons for the loss:			
<i>Electricity bypass</i>			
<i>Meters with no movement</i>			
<i>Meters not loaded onto the system</i>			
<i>Poor collection</i>			
<i>Lack of credit control</i>			
<i>Free basic electricity</i>			
<i>Lack of capacity within the revenue section & Technical Services</i>			
22 RISK MANAGEMENT			
Liquidity risk			
The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.			
Cash flow forecasts are prepared and monitored monthly			
Below are the liabilities or obligations due by the municipality within the next financial year			

23	EMPLOYEE BENEFITS		
	All Councillors and Employees belong to the following funds within the Natal Joint Municipal Pension fund which provides retirement benefits to such employees.		
	The retirement plan is subject to the Pension Funds Act, 1956		
	In accordance with the regulations governing the Fund and in compliance with Section 16 of the Pension Funds Act, 1956 (Act No. 24 of 196) the financial position of the Fund is examined and reported upon but the Valuator at intervals not exceeding three years.		
	In practice the Valuator conducts a statutory valuation on a triennial basis and an interim on an annual basis.		
	Interim Valuations of the Fund as at 31 March 2006 and Report on the Operations of the Memorandum Account for the Year Ended 31 March 2006.		
	In respect of Service to 31 March 2006 the actuarial value of the total assets was R121,7 million more than the actuarial value of the liabilities for the service of members to that date and for pensioners, made up as follows:		
	- surplus of R210,0 million in respect of pensioners (funding level 119,4%)		
	- deficit of R88,3 million in respect of members (funding level 95,0%) of which deficit		
	- about R49,0 million was attributable to salary increases being higher than expected (the average salary increased by 9,7% over the three years which is substantially in excess of inflation).		
	The Fund was thus 104,3% funded. The Fund did not hold an investment reserve.		
	Statutory Valuations of the Fund as at 31 March 2006 and Report on the Operations of the Memorandum Account for the Year Ended 31 March 2006.		
	In respect of Service to 31 March 2006 the actuarial value of the total assets was R140,9 million less than the actuarial value of the liabilities for the service of members to that date and for pensioners, made up as follows:		
	- surplus of R63,4 million in respect of pensioners (funding level 116,2%)		
	- deficit of R204,3 million in respect of members (funding level 73,0%) attributed to salary increases being higher than expected (the average salary increased by 11,1% over the three year period which is substantially in excess of inflation).		
24	Councillor's arrear consumer accounts		
		Outstanding Less than 90 Days	Outstanding More than 90 Days
	No councillors had arrear accounts outstanding for more than 90 days as at:		
		-	-
	As at 30 June 2012:	-	-
	There were no councillor's arrears consumer accounts during 2011.	-	-
		-	-
	As at 30 June 2011	-	-
	There were no councillor's arrears consumer accounts during 2010.	-	-
	Total Councillor Arrear Consumer Accounts	-	-

		2 012	2 011
25	RETIREMENT BENEFITS OBLIGATION		
	25.1. Defined benefit plan		
	Statement of Financial Position obligation for :		
	Post-employment medical benefits	5 011 758	-
	Pension benefits	-	-
	Balance at the end of year	5 011 758	-
	25.2 Statement of Financial Performance obligation for :		
	Post-employment medical benefits	5 011 758	-
	Pension Benefits :	-	-
	Defined Benefit Funds	-	-
	Defined Contribution funds	-	-
	Total, included in employee benefits expense	5 011 758	-
	25.3 Post-Retirement Medical Aid plan		
	The municipality operates on 6 accredited medical aid schemes, namely Key health, Discovery, Hosemed, Samwumed and LA Health. Pensioners continue on the option they belonged to on the day on their retirement.		
	Movement in the defined benefit obligation is as follows :		
	Balance at the beginning of the year	-	-
	Current service cost	5 011 758	-
	Interest costs	-	-
	Actuarial (gains) losses	-	-
	Benefit payments	-	-
	Balance at end of year	5 011 758	-
	Key assumptions used		
	The principal actuarial assumptions used will be as follows		
	Discount rates used	0	0
	General increase to medical aid contributions	0	0
	Salary Inflation	0	0
	Expected retirement age Male	63	63
	Expected retirement age Female	60	60
	Proportion continuing membership at retirement	1	1
	Proportion of retiring members who are married	1	1
	Percentage Contribution on Medical Aid	0	0
	Future pension medical Inflation	0	0
	Other assumption :		
	Age of spouse - Husbands 5 years older than wives		
	Mortality of in-service members :	0	0
	In accordance with the SA 85 - 90 (Light) ultimate table (rated down 3 years for females)		
	Mortality of pensioners :	0	0
	In accordance with the PA (90) ultimate male and female tables		
	(No explicit assumption was made about additional mortality or health care costs due to AIDS)		
	Percentage of in-service members withdrawing before retirement :		
	age 20	1	-
	age 25	1	-
	age 30	1	-
	age 35	0	-
	age 40	0	-
	age 45	0	-
	age 50	0	-
	age 55+	0	-
	age 60+	-	-

		2 012	2 011
25.4 Pension benefits			
The amount recognised in Statement of Financial Position were determined as follows :			
Present value of funded obligations		-	-
Present value of the defined benefit obligation - partially or wholly funded		-	-
Asset not recognised due to future surplus policy not yet established		-	-
Surplus in the Statement of Financial Position		-	-
RETIREMENT BENEFITS OBLIGATION (continued)			
Movement in the defined benefit obligation is as follows			
Balance at the beginning of the year		-	-
Current Service Costs		-	-
Contributions by plan participants		-	-
Actuarial losses		-	-
Interest costs		-	-
Benefit payment		-	-
Obligation not recognised due to future surplus policy not yet established		-	-
Balance at end of year		-	-
Movement in the fair value of plan assets is as follows :			
Actuarial gain (losses)		-	-
Employer Contributions		-	-
Employee Contributions		-	-
Benefit payment		-	-
Expected return of assets		-	-
Asset not recognised due to future surplus policy not yet established		-	-
Balance at end of year		-	-
The amount recognised in the Statement of Financial Performance were as follows :			
Current service cost - Defined Benefit Funds		-	-
Current service cost - Defined Contribution Funds		-	-
Total Included in employee benefit expense		-	-

CHAPTER 3: SECTION 121 (3) B: AUDITOR GENERAL'S COMPREHENSIVE REPORT

FINAL MANAGEMENT REPORT TO THE ACCOUNTING OFFICER ON THE AUDIT OF THE NKANDLA MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2012

INTRODUCTION

1. Our responsibility is to express an opinion on the financial statements, to express a conclusion on the annual performance report in the management report and to report on material findings relating to compliance with specific requirements in key applicable laws and regulations as set out in the *General Notice* issued in terms of the PAA. Our engagement letter sets out our responsibilities and the responsibilities of the accounting officer in detail.
2. This management report includes audit findings arising from the audit of the financial statements, reporting on predetermined objectives and compliance with laws and regulations for the year ended 30 June 2012 which were communicated to management and includes their response to these findings. The report also includes information on the internal control deficiencies that were identified as the root causes for the matters reported. Addressing these deficiencies will assist in ensuring an improvement in the audit outcomes.
3. The management report consists of an executive summary and detailed audit finding which are contained in annexures A, B and C.

EXECUTIVE SUMMARY

SECTION 1: Meetings with oversight bodies and those charged with governance

4. During the audit cycle we met with key stakeholders to communicate matters relating to the audit outcomes of the municipality and emerging risks. Insight was provided on the drivers of the controls that impact these audit outcomes to enable corrective action to be taken.
5. Meetings were conducted as follows:
 - Mayor – 31 May 2012 and 3 July 2012
 - Accounting Officer – 27 March 2012 and 30 August 2012
 - Audit committee – 23 August 2012
6. At these meetings commitments were made to address improvements in the internal control environment with the objective of achieving clean administration. The commitments given and the progress made on previous commitments are included under section 2, part E – Internal control.

SECTION 2: MATTERS RELATING TO THE AUDITOR'S REPORT

PART A – MISSTATEMENTS IN THE FINANCIAL STATEMENTS

7. Material misstatements in the financial statements were identified during the audit. These misstatements were not prevented or detected by the municipality's system of internal control. These material misstatements also constitute non-compliance with the MFMA.

Material misstatements			Impact	Impact
Financial statement item	Finding (Include a brief description of misstatements as per findings and audit report. Include reasons for not correcting when applicable.)	Occurred in prior year (“Yes/ “No”)	R current year	R prior year
Material misstatements corrected				
Irregular expenditure not recorded	Three quotations not obtained for procurement	Yes	R 450 598.92	2,250,675
Irregular expenditure not recorded	Goods and services not procured through competitive bidding and deviation not approved	Yes	R1 174 107.84	
Loss on sale of electricity	Amount not accounted for on the Financial Statements (Electricity) and not disclosed on annual report.	No	R 3 511 479	
Finance cost	Supporting documentation was not provided	No	R 222 334	

Account Receivables	Debtors listing includes the debtors with negative balances	Yes	R 719 458.91	
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PART B – MATTERS TO BE BROUGHT TO THE ATTENTION OF THE USERS

EMPHASIS OF MATTER PARAGRAPHS

The following emphasis of matter paragraphs will be included in our auditor's report to draw the users' attention to matters presented or disclosed in the financial statements:

Material losses

- As disclosed in note 21.1 to the financial statements, electricity losses to the amount of R3,511,479 were incurred as a result of electricity bypass, meters with no movement, meters not loaded onto the system, poor collection, lack of credit control, free basic electricity and lack of capacity within the revenue section and technical services.

Irregular Expenditure

- As disclosed in note 21 to the financial statements, irregular expenditure amounting to R29,817,538 was incurred due to non-compliance with Municipal Supply Chain Management (MSCM) regulations.

Fruitless and wasteful expenditure

- The municipality incurred fruitless and wasteful expenditure of R22,651 as a result of legal fees as disclosed in note 21 of the financial statements.

ADDITIONAL MATTER PARAGRAPHS

11. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited supplementary schedules

12. The supplementary schedules set out on pages XX to XX do not form part of the financial statements and are presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

Material inconsistencies in other information included in the annual report

13. No material inconsistencies in other information included in the annual report

PART C – CONCLUSION ON THE ANNUAL PERFORMANCE REPORT

Included below is our conclusion on the report on predetermined objectives. All matters reported under the basis for conclusion and additional matter will be included in the auditor's report.

Introduction

14. I was engaged to audit of the report on predetermined objectives of the Nkandla Municipality for the year ended 30 June 2012, as set out on pages XX to XX.

The accounting officer's responsibilities

The accounting officer is responsible for the preparation and fair presentation of the report on annual performance report in accordance with the requirements of the applicable laws and regulations, relevant frameworks, circulars and guidance issued by the National Treasury regarding the planning, management, monitoring and reporting of performance against predetermined objectives, and for such internal control as management determines necessary to enable the preparation of report on predetermined objectives that is useful and reliable.

The Auditor-General's responsibilities

15. As required by sections 4 and 20 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), read with *General Notice 839 of 2011*, issued in *Government Gazette 34783 of 28 November 2011*, my responsibility is to prepare an audit conclusion on the annual performance report.
16. I conducted my audit in accordance with the International Standards on Assurance Engagements (ISAE) 3000: *Assurance engagements other than audits or reviews of historical information*.
17. I provide limited assurance with respect to the usefulness of the information contained in the annual performance report.

I further provide limited assurance with respect to the reliability of the following selected material service delivery programmes as set out in the annual performance report:
 - Key performance area (KPA): Good Governance
 - Key performance area (KPA): Infrastructure and Basic services
 - Key performance area (KPA): Local Economic Development
18. The criteria used as a basis for the audit conclusion are as follows:

Usefulness of information:

Presentation: Performance against predetermined objectives is reported using the relevant principles from the National Treasury guidelines.

Consistency: Objectives, indicators and targets are consistent between planning and reporting documents as required by the National Treasury Regulations.

Measurability: Indicators are well defined and verifiable, and targets are specific, measurable and time bound, as required by the National Treasury *Framework for managing programme performance information*.

Relevance: The indicators/measures relate logically and directly to an aspect of the institution's mandate and the realisation of strategic goals and objectives, as required by the *National Treasury Framework for managing programme performance information*.

Reliability of information:

Validity: Reported performance has occurred and relates to the institution.

Accuracy: Amounts, numbers and other data relating to reported performance have been recorded and reported correctly.

Completeness: All actual performance that should have been recorded has been included in the reported performance information.

19. The audit involves performing procedures to obtain audit evidence about the usefulness of the annual performance report and reliability of the selected service delivery programmes as set out in the annual performance report. The procedures selected depend on the auditor's judgement, including our assessment of the risks of material misstatement of the report on predetermined objectives. Because of the test nature and other inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some, even material, misstatements may not be detected, even though the audit is properly planned and performed in accordance with the ISAE 3000. The procedures performed include the following:

- Understanding and testing the internal policies, procedures and controls relating to the management of and reporting on performance information
- Evaluating and testing processes, systems, controls and review of documentation in place at a detail level in the audited institution to support the generation, collation, aggregation, monitoring and reporting of the selected performance indicators and targets
- Evaluating, testing and confirmation of the existence and consistency of planned and reported performance information as well as the presentation and disclosure thereof in accordance with applicable requirements and guidance

- Conducting detailed audit testing and obtaining sufficient appropriate audit evidence to verify the validity, accuracy and completeness of reported indicators and targets.

20. I believe that the evidence obtained from the work performed provides an appropriate basis for the limited assurance conclusions expressed below.

Basis for disclaimer conclusion

Usefulness of information

Performance targets not specific

21. The *National Treasury Framework for managing programme performance information (FMPPi)* requires that performance targets be specific in clearly identifying the nature and required level of performance. A total of 35% of the targets relevant to Key performance area (KPA): Good Governance, Infrastructure and Basic services and Local Economic Development were not specific in clearly identifying the nature and the required level of performance. This was due to the fact that management was had not applied the requirements of the FMPPi which resulted in inadequate controls being developed relating to the on how to development of data indicators and targets.

Performance indicators not well-defined

22. The *National Treasury Framework for managing programme performance information (FMPPi)* requires that indicators/measures should have clear unambiguous data definitions so that data is collected consistently and is easy to understand and use. A total of 100% of the indicators relevant to Key performance area (KPA): Good Governance, Infrastructure and Basic services and Local Economic Development were not well defined in that clear, unambiguous data definitions were not available to allow for data to be collected consistently. This was due to the fact that management was not aware of the requirements of the FMPPi to have the data definition documented

Performance Indicators not verifiable

23. The *National Treasury Framework for managing programme performance information* (FMPPi) requires that it must be possible to validate the processes and systems that produce the indicator. A total of 100% of the indicators relevant to Key performance area (KPA): Good Governance, Infrastructure and Basic services and Local Economic Development were not verifiable in that valid processes and systems that produce the information on actual performance did not exist. This was due to the lack of relevant systems of collection/collation/verification/storage of actual performance information.

Reported targets not consistent with planned targets.

24. The Municipal Systems Act, section 41(c) requires that the integrated development plan should form the basis for the annual report, therefore requiring the consistency of objectives, indicators and targets between planning and reporting documents, However during the audit total of 38% of the reported indicators targets are not consistent with the targets as per the approved integrated development plan. This is due to the lack of review and monitoring of the compliance by management

Reliability of information

Reported performance not valid

25. The *National Treasury Framework for managing programme performance information* (FMPPi) requires that processes and systems which produce the indicator should be verifiable. A total of 100% of the actual reported performance relevant to the selected Key performance area (KPA): Good Governance, Infrastructure and Basic services and Local Economic Development were not valid when compared to the source information and evidence provided. This was due to a lack of standard operating procedures for the recording of actual achievements and the department did not implement and fill the organisational structure required to report on performance.

Reported performance not accurate

26. The *National Treasury Framework for managing programme performance information (FMPPi)* requires that the indicator be accurate enough for its intended use and respond to changes in the level of performance. A total of 100% of the actual reported indicators relevant to selected Key performance area (KPA): Good Governance, Infrastructure and Basic services and Local Economic Development were not accurate when compared to source information. This was due to a lack of standard operating procedures for the recording of actual achievements and the department did not implement and fill the organizational structure required to report on performance.

Conclusion

27. On the usefulness of the annual performance report on which I am required to express limited assurance.

Because of the significance of the matters described in the basis for disclaimer conclusion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for a conclusion. Accordingly, I do not express a conclusion on the selected development priorities/objectives set out in the annual performance report.

28. On the reliability of the selected programmes on which I am required to express limited assurance.

Because of the significance of the matters described in the basis for disclaimer conclusion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for a conclusion. Accordingly, I do not express a conclusion on the selected development objectives set out in the annual performance report.

Performance information additional matters

I draw attention to the matters below. My conclusion is not modified in respect of these matters

Achievement of planned targets

29. The annual performance report that is presented for audit is not useful in specifying annual achievements against annual planned targets, therefore there is limitation of scope in reporting under this paragraph

Material adjustments to the name of annual performance report

30. No material audit adjustments in the annual performance report were identified during the audit.

PART D – FINDINGS ON COMPLIANCE WITH LAWS AND REGULATIONS

Annual financial statements, performance and annual report

31. The financial statements submitted for auditing were not prepared in all material respect in accordance with the requirements of section 122 of the MFMA. Material misstatement of notes to the financial statements identified by the auditors was subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Procurement and contract management

32. There were no reports issued to MEC for local government and Auditor General for amount of R29, 817,538 of irregular expenditure incurred during the current year as per requirements of section 32 of MFMA.

33. Goods and services with a transaction value of between R10 000 and R200 00 were procured without obtaining written price quotations from at least three different prospective providers as per the requirements of SCM regulation 17(a) & (c) PN 8 of 2007/08.

34. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids as per the requirements of SCM regulation 19(a) and 36(1) or TR 16A.6.4 and PN 8 of 2007/08].

35. The accounting officer did not take reasonable steps to prevent irregular expenditure and fruitless and wasteful expenditure, as required by section 62(1) (d) of the MFMA.

PART E – INTERNAL CONTROL

IMPLEMENTATION OF THE DRIVERS OF INTERNAL CONTROL

36. The implementation of effective internal control helps in the achievement of important objectives and sustained and improved performance.

Objectives are derived from the regulatory environment and fall into the following categories:

- Operations – Effectiveness and efficiency of operations including goals for operational and financial performance and safeguarding resources against loss (financial and performance management)
- Reporting – Pertaining to the reliability of reporting including internal and external reporting of financial and non-financial information
- Compliance – Pertaining to compliance with laws and regulations.

37. Objectives are driven by the mandate and the mission and vision of the organization. Setting objectives is a prerequisite to internal control and a key part of strategic planning.

38. Internal control is a multi-dimensional iterative process of ongoing tasks and activities, affected by the people not just policies and systems, which provide assurance concerning the achievement of objectives. The fundamental principles contained in the drivers of internal control below must be present and operate together in order for the system of internal control to be effective.

For purposes of focusing corrective action, the principles of the different components of internal control have been categorized under leadership, finance and performance management and governance. These are the drivers of internal control.

39. The leadership of an organization sets the tone from the top regarding the importance of internal controls and expected standards of conduct. This establishes the control environment which is the foundation for the other components of internal control and provides discipline, process and structure. In order to establish what control activities (e.g. policies and procedures) are required to ensure achievement of the control objectives a risk assessment should be conducted. The availability of accurate and complete information and the

communication of information, another component of internal control, are required to carry out the day-to-day internal control activities.

Thereafter there should be ongoing monitoring of activities (good governance) to ascertain whether all components of internal control are present and functioning.

40. When internal control is effective, management and those charged with governance have reasonable assurance that operations are managed effectively and efficiently, financial and non-financial reporting is reliable and laws and regulations are complied with.

41. Below is our assessment of the implementation of the drivers of internal control based on significant deficiencies identified during our audit of the financial statements, the annual performance report and compliance with laws and regulations. Significant deficiencies occur when internal controls either do not exist or are not appropriately designed to address the risk or are not implemented and which either had or could cause the financial statements or the annual performance report to be materially misstated and material non-compliance with laws and regulations to occur. When the required preventative or detective controls are in place, it is assessed with a 😊, when progress on the implementation of such controls were made but improvement is still required, it is assessed with a 😐, while 😞 indicates that internal controls are not in place and intervention is required to design and implement appropriate controls. The movement in the status of the drivers from the previous year-end to the current year-end assessment is indicated, collectively for each of the three audit dimensions under the three fundamentals of internal control, with a ⬆️ (improved), ↔️ (unchanged) or a ⬇️ (regressed). The matters that gave rise to the below assessment will be included in the auditor's report.

3 Audit dimensions		Financial	Performance objectives	Compliance with laws and regulations
Fundamentals of internal control		Assessment		
Leadership				
		↑	↔	↔
•	Provide effective leadership based on a culture of honesty, ethical business practices and good governance, protecting and enhancing the best interests of the entity	😊	😊	😊
•	Exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls	😞	😞	😞
•	Implement effective HR management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored	😐	😐	😐
•	Establish and communicate policies and procedures to enable and support understanding and execution of internal control objectives, processes, and responsibilities	😐	😞	😐

• Develop and monitor the implementation of action plans to address internal control deficiencies			
• Establish an IT governance framework that supports and enables the business, delivers value and improves performance			
Financial and performance management			
• Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting			
• Implement controls over daily and monthly processing and reconciling of transactions			
• Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information			
• Review and monitor compliance with applicable laws and regulations			
• Design and implement formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information			
Governance			
• Implement appropriate risk management activities to ensure that regular risk			

assessments, including consideration of IT risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored			
<ul style="list-style-type: none"> Ensure that there is an adequately resourced and functioning internal audit unit that identifies internal control deficiencies and recommends corrective action effectively 	😊	😊	😊
<ul style="list-style-type: none"> Ensure that the audit committee promotes accountability and service delivery through evaluating and monitoring responses to risks and providing oversight over the effectiveness of the internal control environment including financial and performance reporting and compliance with laws and regulations 	😊	😊	😊

LEADERSHIP

Oversight responsibility regarding reporting and compliance

42. The responsibilities for information security were not delegated to an information security officer.

43. The consultants supporting the Evenus and Cash Drawer applications had full access to all the functions. Furthermore, no evidence was available to confirm that their activities were being monitored.

Effective human resource management

44. Windows server 2003 system security settings were not adequately set due to the lack of ICT skills to re-configure the operating system.

Implementation of policies and procedures

45. No evidence was provided that service level agreements (SLA) had been established between the municipality and the service providers for software support and the upgrading of systems.

No evidence was provided to confirm that management was monitoring the support provided by the IT consultants to ascertain whether satisfactory service was received.

- It was noted that the municipality did not had an information technology (IT) security policy to ensure data confidentiality, integrity and availability
- A formal change management process covering the initiation, evaluation, approval, testing and acceptance of changes by the user community had not been established.
- User account management standards and procedures had not been established.
- Management had not formally developed a business continuity plan (BCP) as well as disaster recovery plan (DRP) to ensure that municipal operations could be resumed in the event of a disaster.
- Formal physical security and environmental control policies did not exist. Furthermore, there was no evidence that controls had been established to address matters such as the installation of water and smoke detectors, fire extinguisher and maintenance schedule for air conditioners.
- Formally documented and approved backup standards and procedures were not in place.
- User account management (UAM) procedures had not been developed to define the internal controls that should be followed when a user account is created, access rights are allocated or modified or user accounts and related access rights are no longer required. Furthermore, the following were not reviewed / monitored:
 - Review of logon violations to detect unauthorized attempts to access the system.

- Review of administrators' activities on the financial applications by an independent person to detect misuse of powerful rights.
 - Review of users' access rights on financial applications to ensure that they remained relevant to their job responsibilities
 - New access request forms required for the creation of new accounts did not indicate the functions that were supposed to be allocated to the new user.
-

GOVERNANCE

Inadequate risk identification and management

46. The municipality had not established an information technology (IT) risk management framework to assist IT in aligning the evaluation and management of IT risks to the overall approach of the municipality.

SUMMARY

47. The matters above, as they relate to the basis for opinion, findings on the annual performance report and findings on compliance with laws and regulations, will be summarised in the auditor's report as follows:

Leadership

48. The accounting officer and council did not perform oversight by reviewing the annual financial statement and performance report in details to ensure that all reported information is credible, complete, complies with all laws and regulation and is supported by reliable documents.

Financial and performance management

49. The chief financial officer and performance management unit did not perform a detailed review of the annual financial statement and performance report to ensure that all reported information is credible, complete, complies with all laws and regulation and is supported by reliable documents.

PART F – STATUS OF IMPLEMENTATION OF COMMITMENTS AND RECOMMENDATIONS

50. Below is our assessment of the progress on commitments made by the accounting officer and audit committee to address audit outcomes in the prior and current years.

No	Commitment	Made by	Date	Status
1.	Improve audit opinion for 2011/12	Mayor	29 June 2012	In progress
2.	To appoint all section 57 employees by 30 September 2012	Mayor Accounting officer	6 July 2012 7 September 2012	In progress
3.	Commitment to clean administration	Accounting officer	27 June 2012	In progress

51. Eighteen audit recommendations accepted by management in the prior year were implemented or alternative actions were taken which resolved the prior year audit findings. Eight recommendations are still in the process of being implemented and four have not been addressed or very limited progress has been made. Detail on the status of these recommendations is provided in the summary of detailed findings in this report.

SECTION 3: SPECIFIC FOCUS AREAS

PART A – SIGNIFICANT FINDINGS FROM THE AUDIT OF PROCUREMENT AND CONTRACT MANAGEMENT

52. The audit included an assessment of procurement processes, contract management and the related controls in place. To ensure a fair, equitable, transparent, competitive and cost-effective SCM system, the processes and controls need to comply with legislation and minimise the likelihood of fraud, corruption, favouritism as well as unfair and irregular practices. A summary of the findings from the audit are as follows:

Awards to persons in the service of the state

53. SCM Regulation 44 prohibits awards to persons or to entities owned/ managed by them if they are in service of the auditee or if they are in service of any other state institution. The audit included the identification of such prohibited awards. Further testing was also performed to determine whether the legislated requirements with regard to declarations of interest were adhered to.

Finding	Number and value of awards made	Number of officials/ councillors	Number of providers	Further non-compliance or irregularities regarding the awards			
				Provider did not submit declarations of interest	Provider did not-declare interest (declaration submitted)	Officials/ councillors did not declare interest	Official/ councillor was involved of in the procurement of the award
				Provider did not submit declarations of interest	Provider did not-declare interest (declaration submitted)	Officials/ councillors did not declare interest	Official/ councillor was involved of in the procurement of the award
Awards to officials of other state institutions	4 contracts valued at R787 283	4	4	4	4		None identified through procedures performed

The findings were as follows:

- 54. Three (3) deviations from competitive bidding to the total value of R1 174 107.84 were approved on the basis of it being an preferred service provider and emergency even though immediate action was not necessary to avoid a dangerous and risky situation of misery and sufficient time was available to follow a bidding process and proper planning would have prevented such an emergency.
 - 55. Eleven (11) awards to the total value of R450 598.92 were procured without inviting at least three written price quotations from prospective suppliers and the deviation.
 - 56. The contracts with total amount of R 28 192 831.14 was declared irregular expenditure by the municipality as results of the composition of bid specification , bid evaluation and bid adjudication committees not being according to the SCM regulations.
-

PART B – SERVICE DELIVERY MATTERS

- 57. No matters to report
-

PART C – FINANCIAL SUSTAINABILITY

- 58. Management is responsible for the sound and sustainable management of the affairs of the municipality and to implement an efficient, effective and transparent financial management system for this purpose, as regulated by the MFMA.

Our audit included a high-level assessment of selected financial indicators as at year-end. The purpose of the assessment is to provide management with an overview of financial indicators to enable timely remedial action where financial health and service delivery may be at risk. The information should be used to complement rather than be a substitute for management's own financial assessment.

59. The municipality's financial indicators have been assessed according to the following areas and are set out in the table below:

- budgets
- expenditure management
- conditional grants
- revenue management
- asset and liability management

The analyses on which the information in the table is based are contained in annexure D. The table is followed by overall high-level comments on the risks posed by the assessment of the financial indicators.

FINANCIAL INDICATORS AS AT 30 JUNE 2012				
(Limitation = unable to obtain sufficient appropriate information)				
BUDGETS				
1.1	Percentage over-spending of the final approved operating expenditure budget.	Not over-spent	% over-spent	Limitation
		X		
1.2	Percentage under-spending of the final approved capital budget.	Not under-spent	% under-spent	Limitation
				X
EXPENDITURE MANAGEMENT				
2.1	Creditor-payment period.		Days	Limitation

FINANCIAL INDICATORS AS AT 30 JUNE 2012					
(Limitation = unable to obtain sufficient appropriate information)					
				81	
CONDITIONAL GRANTS					
3.1	Percentage under-spending of conditional grants received.		Not under-spent	% under-spent	Limitation
				3.2%	
3.2	Percentage by which unspent conditional grants received exceeds cash available at year-end.	Bank in overdraft	Not exceeded	% exceeded	Limitation
			X		
REVENUE MANAGEMENT					
4.1	Debtor-collection period (before impairment).			Days	Limitation
				875	
4.2	Debtor-collection period (after impairment).			Days	Limitation
				526	
4.3	Percentage of debtors written-off.			% debtors impaired	Limitation
				0.0%	

FINANCIAL INDICATORS AS AT 30 JUNE 2012				
(Limitation = unable to obtain sufficient appropriate information)				
4.4	Percentage of revenue not collected. (Bad debt written-off.)	% revenue not collected	Limitation	
		0%		
4.5	Percentage water losses incurred.	% water losses	Limitation	
		0%		
4.6	Percentage electricity losses incurred.	% electricity losses	Limitation	
		57.7%		
ASSET AND LIABILITY MANAGEMENT				
5.1	A deficit for the year was realized (total expenditure exceeded total revenue).	No	Yes	Limitation
		X		
5.2	A net current liability position was realized (total current liabilities exceeded total current assets).	No	Yes	Limitation
		X		
5.3	A net liability position was realised (total liabilities exceeded total assets).	No	Yes	Limitation
		X		
5.4	The year-end bank balance was in overdraft.	No	Yes	Limitation
		X		

FINANCIAL INDICATORS AS AT 30 JUNE 2012				
(Limitation = unable to obtain sufficient appropriate information)				
5.5	Percentage of PPE and / or intangible assets impaired.	% PPE and intangible assets impaired		Limitation
		0.0%		
5.6	Percentage of loan receivables (loans awarded) and/or investments impaired.	% loans and investments impaired		Limitation
		0.0%		
5.7	Long-term debt to operating cash flow ratio.	Negative/no cash flows	Long-term debt to cash flow ratio	Limitation
				X
5.8	Employee benefit obligations to operating cash flow ratio.	Negative/no cash flows	Employee benefit obligations to cash flow ratio	Limitation
				X

PART E – CONSULTANTS

60. The use of consultants is extensive in the finance section of the municipality, the acting consultant chief financial officer from Guarantee Trust consultants who is responsible for day to day running of finance section and reporting and for assets management municipality uses the Ngubane & Co. However during the audit there was a material financial misstatement that was identified during the audit process and transfer of skills was not evident during the audit process with the municipality finance staff being unable to effectively assist the audit team in the absence of the acting Chief financial officer.

PART F – FRAUD

61. The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance. We are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. Due to the inherent limitations of an audit there is a risk that some material misstatements including fraud may not be detected.

SECTION 4: EMERGING RISKS

Accounting and compliance matters

62. Minimum competency regulations were issued on 15 June 2007. As per regulation 15 and 18, all municipalities must ensure that their staffs comply with the competency requirements with effect from 1 January 2013. This means that the requirements are not yet applicable for the financial year 2011-12 (financial period ending 30 June 2012). However, municipalities will need to start aligning their recruitment policies to the regulations and put measures in place to ensure that they comply with the requirements by 1 January 2013.

Subsequent events

63. There was a change in the Mayor, deputy mayor and speaker subsequent from the year end and this represent change in oversight body.

SECTION 5: ENTITIES CONTROLLED BY THE MUNICIPALITY

64. No public entity is controlled by Nkandla Municipality.

SECTION 6: RATINGS OF DETAILED AUDIT FINDINGS

65. For the purposes of this report, the detailed audit findings included in annexures A to C have been classified as follows:

- Matters to be included in the auditor's report - These matters should be addressed as a matter of urgency.
- Other important matters – These matters should be addressed to prevent the likelihood that these matters may in future lead to material misstatements of the financial statements, material findings on predetermined objectives and compliance with laws and regulations.
- Administrative matters – These matters are unlikely to result in material misstatements of the financial statements, material findings on predetermined objectives and compliance with laws and regulations.

SECTION 7: CONCLUSION

66. The matters communicated throughout this report relate to the three fundamentals of internal control which should be addressed to achieve sustained clean administration. The AGSA staffs remains committed to assisting in the process of identifying and communicating good practices to improve governance and accountability, so as to build public confidence in government's ability to account for public resources in a transparent manner.

Yours sincerely

Ntombifuthi Precious Makhaye
Senior Manager: KwaZulu-Natal

30 November 2012

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Distribution:

Municipal Manager
CFO
Audit committee
Head of internal audit

Page. no.	Finding	Classification					Rating			Number of times reported in previous 3 years	Status of implementation of previous year(s) recommendation
		Misstatements in financial	Misstatements in annual	with laws &	Internal control	Service delivery	Matters affecting the auditor's	Other important matters	Administrative matters		
Cash and cash equivalents											
	The petty cash journal could not be verified against supporting documentation				✓			✓			In progress
	The bank reconciliations for all 12 months for the primary bank account were not done timeously.				✓				✓		In progress
Employee costs											
	No documentations of deductions made from employees			✓					✓		In progress
Movable assets											
	No monthly reconciliations for assets				✓			✓			In progress
Operating expenditure											
	Quotations not obtained from at least three different providers			✓			✓				In progress

	Irregular expenditure not disclosed on the AFS	✓						✓			In progress
	Report of irregular expenditure by Accounting Officer			✓				✓			In progress
	Fruitless and wasteful expenditure			✓				✓			In progress
	Procurement process not followed			✓			✓				In progress
Payable											
	Creditors Reconciliation				✓			✓			In progress
Predetermined objectives											
	No link between the development objectives and budget		✓					✓			In progress
	Inconsistencies between planned and reported objectives		✓				✓				In progress
	Inconsistencies between planned and reported annual targets.		✓				✓				In progress
	Inconsistencies between planned and reported indicators		✓				✓				In progress
	Levels of performance not clearly identified		✓				✓				In progress
	Performance targets is not measurable		✓				✓				In progress
	Indicators are not defined		✓								In progress
	Reported targets could not be traced to source documentations		✓				✓				In progress
Revenue											
	Amount not accounted for on the Financial Statements (Electricity)	✓						✓			In progress

	No reconciliation of revenue from the collecting Agent(Boxer Superstores)				✓			✓			In progress
	Distribution losses is not monitored on a month to month basis			✓				✓			In progress
Taxes											
	Non-Compliance VAT Act			✓					✓		In progress

DETAILED AUDIT FINDINGS

ANNEXURE A: MATTERS AFFECTING THE AUDITOR'S REPORT

Operating expenditure

1. Quotations not obtained from at least three different providers

Audit finding

The Municipal Finance Management Act's supply chain management regulation section 17 state that" Supply chain management policy must stipulate the conditions for the procurement of goods or services through written or verbal quotations, which must include conditions stating that quotations must be obtained from at least three different providers preferably from, but not limited to, providers whose name appear on the list of accredited prospective providers of the municipality"

During the audit of procurement and contract management, it was noted that three quotations were not obtained from three different service providers for the following awards:

Date	Eft/Chq No	Payee	Description	Amount
30/06/2012	Ch 6255	Fakumoya Alpha Communication	Idp/Budget Imbio	(20,000.00)
15/07/2011	Cf 030711	Fleurdale Bed & Breakfast	Accommodation	(28,200.00)
30/06/2012	Ch 6321	Nkandla Taxi Association	Youth Development	(12,800.00)
29/03/2012	Cf 1050312	Tree	Iecd	(21,780.00)
29/03/2012	Cf 1060312	Amavikela Driving School Cc	Vehicle Hire	(14,000.00)
13/03/2012	Cf 170312	Ngibonga Amathula	Printing & Stationery	(10,880.00)
20/09/2011	Cf 1150911	Ngembuka Trading Cc	Women Empowerment	(50,000.00)
30/11/2011	Cf 1811111	Ikhono Communicati ons	MSIG	(171,000.00)

14/12/2011	Cf 691211	Battlefields Country Lodge	Strategic Planning	(90,920.00)
30/06/2012	Ch 6253	Tee La Leh Trading Enterprise Cc	Printing & Stationery	(25,000.00)
15/03/2012	Cf 270312	Engine & Gearbox Center	R&M Vehicle	(6,018.92)

Incorrect application of the procurement process deviation

Irregular expenditure

Internal control deficiency

The accounting officer did not ensure the proper interpretation and application of the Supply Chain Regulations

Recommendation

The accounting officer must ensure proper interpretation and application of the Supply Chain Regulations. Quotations should be obtained as required by the by SCM regulations. All expenditure needs to be reviewed and irregular expenditure must be disclosed in the financial statements where there is non-compliance.

Management response

Agree with the finding

The amounts listed above should be forming part deviations, and circumstances resulting to single quote should have been recorded in the payment voucher.

Name: S Myeza

Position: CCFO

Date: 12/11/2012

Auditor's conclusion

Inclusion in the emphasis of matter paragraph in Audit report

2. Procurement process not followed

Audit finding

Section 112 of Municipal Finance Management Act state that “ The supply chain management policy of a municipality or municipal entity must be fair, equitable, transparent, competitive and cost-effective and comply with a prescribed regulatory framework for municipal supply chain management, which must cover at least the following: The range of supply chain management processes that municipalities and municipal entities use, including tenders, quotations, auctions and other types of competitive bidding “

During audit of procurement and contract management it was noted that the following awards were not awarded in following the competitive bidding process as per the requirements of Municipal Finance Management Act:

No	Item description	Total rand-value of award	Expenditure (Payments) - current year	Account No.	Invoice no.
1	DASS & ASSOCIATES ATTORNEY=LEGAL FEES		498,649.44	2012/01/31 DAS001	INV01-42
2	INFINITY ALLIENCE CONSULTING ENGINEERS & PRO-EKOMBE ELECTRIFICATION		304,821.38	2012/05/31 INF001	
3	RIS VEHICLE HIRE		370,637.02	2012/06/30 RIS001	

Incorrect application of SCM deviation

Non-compliance that results to Irregular expenditure

Internal control deficiency

Lack of monitoring and oversight control over SCM compliance.

Recommendation

The Accounting Officer must ensure proper interpretation and application of the Supply Chain Regulations

Management response

This has been quantified and included under irregular expenditure.

Auditor's conclusion

This finding will be included as irregular expenditure in the audit report.

Predetermined objectives**3. Inconsistencies between planned and reported objectives****Audit finding**

In terms of section 46(1) (a) of the annual performance report, A municipality must prepare for each financial year a performance report reflecting:

- The performance of the municipality and of each external service provider during that financial year.

During the course of the audit, it was noted that there were differences between the planned objectives and the reported objectives at year end as follows:

Planned Objectives	Reported Objectives	Planned objective not reported on	Report on objective not planned
Management of waste disposal	-	•	
New households with access to weekly waste disposal services	-	•	
Number of causeway constructed	-	•	
New houses constructed	-	•	
Implementation of municipal budget projects	-	•	
Target spending achieved	-	•	
Cooperative support	-	•	
Community outreach needs assessment	-	•	
Ward committee systems	-	•	
IDP representative forum	-	•	
Implementation of risk management plan	-	•	
To have functional community safety unit	-	•	

To disseminate information to Nkandla community	-	.	
Library and information management	-		.
Retention strategy : with focus on scarce skills developed and implemented	-		.
To remove waste around town	-		.
Provision of effective legal service support	-		.
To register and train cooperatives.	-		.
Kilometres of road maintained	-		.

The accounting officer does not review the annual performance report prior to their submission for audit and thus the inconsistencies were not discovered.

The accounting officer of the municipality will not be able to assess the performance of the municipality against its planned targets at the planning stage and to take corrective action to achieve its targets.

Internal control deficiency

The accounting officer does not review the annual performance report prior to their submission for audit and thus the inconsistencies were not discovered.

Recommendation

The accounting officer must review the performance report and sign the report to confirm that the report has consistently reported planned objectives. Furthermore explanations need to be disclosed on the annual performance report on deviations.

Management response

Management agrees with the finding and performance will be improved at next audit as a performance manager has been appointed at the municipality.

Auditor's conclusion

This finding will be included in the audit report.

4. Inconsistencies between planned and reported annual targets.

Audit finding

During the course of the audit, it was noted that there were inconsistencies between planned annual targets as per the SDBIP and reported annual target as per annual performance report.

The inconsistencies were as follows:

Measurable objective or output	Performance measure or indicator	Annual target per SDBIP	Annual target per Report	Differences / Inconsistencies
Youth employed by municipality	Number of youth	9	6	3
Budget spent on implementation of workplace skills plan	Percentage spent	100%	R164 000	% and amount
Ensure internal decisions making processes are efficient and effective	Average time spent between an item tabled and decision taken	Within 30 days	Monthly	Within 30 days and monthly

Skills gap analysis with the workplace skills plan and implementation of strategy to address skills gap	% strategy implementation	100%	-	100%
Proper utilization and maintenance of municipal fleet	Accurate records	-	1	1
EAP program	Approved EAP policy	1	-	1
Secretarial service to Council, Support Committee and Manco	Number of meeting	94	1	93

Secretarial service to Council, Support Committee and Manco	Turnaround time	7 days	-	7 days
Spatial development framework	Nodal framework plans developed	3	1	2
Develop environmental management plan	Date	N/A	-	
Performance management system	Approved SDBIP	1	2	1
S57 Performance agreements	Number of agreements signed	4	-	4

Review and implementation of municipal turnaround strategy	Reviewed MTAS	1	-	1
Review and implementation of municipal turnaround strategy	Reports on implementation of MTAS	4	-	4
Review of communication and strategy and policy	Approved communication strategy and policy	1	-	1
Maintenance of existing infrastructure	% operation budget spent	100%	4	% and number
Jobs created through the municipality's LED initiatives and capital projects	Number of jobs	220	340	120

Implementation of the agricultural development strategy	% achieved against milestone	50%	7	% and number
Community outreach programmes	Number of awareness campaigns	12	4	8
Anti corruption strategy or fraud prevention plan	Council resolution	1	-	1
Anti corruption strategy or fraud prevention plan	% awareness within the community	100%	-	100%
Debt coverage ration	Ratio	1:1	2:1	1:1 and 2:1
Maintenance of valuation roll	Supplementary valuation roll	-	100%	100%
Maintenance of valuation roll	Reviewal of property rates policy	1	100%	% and number

To establish learner licence and motor licensing	Appointment of two examiners and installation of E Natis system	Functional DLTC	2	Functional DLTC and number
To implement vulnerable groups programmes	Quarterly reports	4	2	2

The accounting officer of the municipality will not be able to assess the performance of the municipality against its planned targets at the planning stage and to take corrective action to achieve its targets.

Internal control deficiency

The accounting officer does not review the annual performance report prior to their submission for audit and thus the inconsistencies were not discovered.

Recommendation

The accounting officer must consistently review the reported targets against the planned targets to ensure that all planned indicators are reported accordingly

Management response

Management agrees with the finding and performance will be improved at next audit as a performance manager has been appointed at the municipality.

Auditor's conclusion

This finding will be included in the audit report.

5. Inconsistencies between planned and reported indicators

Audit finding

During the course of the audit, it was noted that there are inconsistencies between the planned and reported performance indicators. The inconsistencies are as follows:

Strategic Objective	Measurable Objective	Planned performance measure or indicator	Reported performance measured or indicator.
To promote skills development through capacity building	Annual approved workplace skills plans	Date	2011/12 workplace skills plan

To promote skills development through capacity building	Recruitment strategy reviewed to include strategies on attracting competent personal to apply for posts	% Strategy implementation	Adopted recruitment
To promote skills development through capacity building	To have functional fleet management system	Accurate records	Proper utilization and maintenance of municipal fleet
To ensure that Nkandla undertakes continuous up to date financial management	Functional internal audit unit	Annual risk assessment plan	Annual internal audit plan
To ensure that development is undertaken with the various prescripts or relevant legislation	Spatial development framework	Nodal framework plans developed	Reviewed SDF

in order to encourage organized settlements			
To ensure that development is undertaken with the various prescripts or relevant legislation in order to encourage organized settlements	Performance management systems	Approved SDBIP	Bi-annual report
To promote intergovernmental relations as key to holistic development of Nkandla	Review and implementation of the municipal turnaround strategy	Reviewed MTAS	Number of MTAS priorities
To promote intergovernmental relations as key to holistic	Review and implementation of the municipal turnaround	Reports on implementation of MTAS	Date achieved

development of Nkandla	strategy		
To ensure that 80% of Nkandla residents have access to basic services	Indigent policy	Number of households benefitted from free basic service	Reviewed indigent policy.
To ensure that 80% of Nkandla residents have access to basic services	Kilometres of tarred roads established	Number of kilometres	To have 1.75km of tarred roads.
To ensure that 80% of Nkandla residents have access to basic services	Maintenance of existing infrastructure	% of operation budget spent	4 existing infrastructure to be maintained
To ensure that 80% of Nkandla residents have access to basic services	Implementation of municipal budgeted projects	% achievement against milestones	To assist 14 wards with agricultural and fencing material

To ensure that development is undertaken with the various prescripts or relevant legislation in order to encourage organized settlements	IDP reviewed document with sector plans	Date of approval	Approved IDP reviewed document

The accounting officer does not review the annual performance report prior to their submission for audit and thus the inconsistencies were not discovered.

The accounting officer of the municipality will not be able to assess the performance of the municipality against its planned performance indicators at the planning stage and to take corrective action to achieve its targets.

Internal control deficiency

Lack of monitoring activities

Recommendation

The accounting officer must consistently review the reported indicators against the planned indicators to ensure that all planned indicators are reported accordingly

Management response

Management agrees with the finding and performance will be improved at next audit as a performance manager has been appointed at the municipality.

Auditor's conclusion

This finding will be included in the audit report.

6. Levels of performance not clearly identified

Audit finding

Framework for Managing Programme Performance Information state that "A useful set of criteria for selecting performance targets is the "SMART" criteria:

- **Specific:** the nature and the required level of performance can be clearly identified
- **Measurable:** the required performance can be measured
- **Achievable:** the target is realistic given existing capacity

During the course of the audit of the SDBIP, it was noted that the municipality has objectives for which no annual targets were set. The objectives for which there were no annual targets set were as follows

Strategic Objective	Measurable objectives	Performance measure / indicator	Annual targets
To promote skills development through capacity building	Disabled staff employed by the municipality	Number of staff	-
To promote skills development through capacity building	Proper utilization and maintenance of municipal fleet	Accurate records	-
To ensure that 80% of Nkandla residents have access to basic services	New houses constructed	Number of facilities	-
To increase municipal revenue through sound financial management and practices	Maintenance of valuation roll	Supplementary valuation roll	-

There is no proper process and procedure in place to properly develop indicators and "smart" performance targets

The accounting officer of the municipality will not be able to assess the performance of the municipality against its planned targets at the planning stage and to take corrective action to achieve its targets.

Internal control deficiency

Lack of control activities to ensure proper development of performance indicators and targets

Recommendation

Accounting Officer must ensure that the municipality adheres to the National Treasury Framework for Managing Programme Performance Information in developing performance indicators and performance targets

Management response

Management agrees with the finding and performance will be improved at next audit as a performance manager has been appointed at the municipality.

Auditor's conclusion

This finding will be included in the audit report.

7. Performance is not measurable

Audit finding

Framework for Managing Programme Performance Information state that “A useful set of criteria for selecting performance targets is the "SMART" criteria:

- **Specific:** the nature and the required level of performance can be clearly identified
- **Measurable:** the required performance can be measured
- **Achievable:** the target is realistic given existing capacity
- **Relevant:** the required performance is linked to the achievement of a goal
- **Time-bound:** the time period or deadline for delivery is specified.

During the course of the audit, it was noted that municipality's performance targets could not be measured.

The performance targets that cannot be measured are as follows:

Strategic Objective	Measurable Objective	Performance Measure / Indicator	Annual target
To promote skills development through capacity building	Skills Gap analysis within the workplace skills plan and implementation of strategy to address skills gap	% strategy implementation	100%
To promote skills development through capacity building	Minimise number of formal grievances lodged	Number of grievances	100%
To promote skills development through capacity building	Client / customer satisfaction surveys conducted	Number of surveys conducted	100%
To ensure that development is undertaken within the various prescripts of relevant legislation in	Implementation of planning and development act	% of compliance	100%

order to encourage organized settlements.			
To ensure that development is undertaken within the various prescripts of relevant legislation in order to encourage organized settlements.	Ensuring alignment of principles of LUMS and PDA	% Alignment	100%
To ensure that 80% of Nkandla residents have access to basic services.	Maintenance of existing infrastructure	% of operation budget spent	100%
To ensure that 80% of Nkandla residents have access to basic services.	Implementation of municipal budgeted projects	% of achievement against milestone	100%
To grow the economy of Nkandla by promoting local business / entrepreneurs and capacitating emerging entrepreneurs	Targeted spending achieved	% achieved against BBBEE targets	100%
To promote self substance through capacitating Nkandla's community with more emphasis on vulnerable groups	Implementation of the agricultural development strategy	% achieved against milestone	50%
To ensure that Nkandla undertakes continuous up to date financial management.	Effective implementation of all legal prescripts, policies, procedures and bylaws	% of compliance	100%

	Anti corruption strategy / fraud prevention plan review.	% awareness within the municipality	100%
To increase municipal revenue through sound financial management practices	Cash collected from customers	% collected vs. budget	100%
To increase municipal revenue through sound financial management practices	Amount invoiced / billed to customers	% of services rendered that are billed	100%
To increase municipal revenue through sound financial management practices	Outstanding service debtors to revenue	%	60%
To increase municipal revenue through sound financial management practices	To ensure that by 2012, 50% of Nkandla's annual budget is revenue based	Total revenue received from grants and subsidies	100%
To increase municipal revenue through sound financial management practices	To ensure that by 2012, 50% of Nkandla's annual budget is revenue based	Total of grants and subsidies spent	100%

To increase municipal revenue through sound financial management practices	To ensure that by 2012, 50% of Nkandla's annual budget is revenue based	Implementation of credit control, debt collection	100%
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There is no proper process and procedure in place to properly develop indicators and "smart" performance targets

The accounting officer of the municipality will not be able to assess the performance of the municipality against its planned targets at the planning stage and to take corrective action to achieve its targets.

Internal control deficiency

Lack of control activities to ensure proper development of performance indicators and targets

Recommendation

Accounting Officer must ensure that the municipality adhere to the National Treasury Framework for Managing Programme Performance Information in developing performance indicators and performance targets

Management response

Management agrees with the finding and performance will be improved at next audit as a performance manager has been appointed at the municipality.

Auditor's conclusion

This finding will be included in the audit report.

8. Reported targets could not be traced to source documentations

Audit finding

The National Treasury *Framework for managing programme performance information (FMPPI)* paragraph 3.2(c) requires that processes and systems which produce the indicator should be verifiable i.e. it must be possible to validate the processes and systems that produce the indicator.

During the course of the audit of predetermined objectives, it was noted that the reported annual targets are not supported by source documentation.

The following targets could not be traced to source documents:

Indicator	Target	Reported target
250 streetlights maintained	250	250
Number of new electrical connections	500	500
856 households with access to waste disposal service	856	856
Upgraded landfill site	1	1
Completed projects : CBD Roads Inner Roads, Town Outer Roads, Upgrading of cemeteries and CBD Community sidewalks	4	4
Number of households with access to free electricity	856	856

To have 1.75km of tarred roads	1.75km	1.75km
Number of kilometres of gravel roads regavelled	5.3km	5.3km
Reviewed Housing Sector Plan	1	1
4 existing infrastructure maintained	4	4
Number of registered MIG projects.	6	6
40 co-operatives registered and trained	40	40
340 jobs created through LED and Capital projects.	340	340
Reviewed tourism strategy as part of the broader LED Strategy	1	1
Client / customer satisfaction surveys	1	1
Number of policies, procedure and bylaws developed	3 by-laws and 2 policies developed.	5
Number of policies, procedure and bylaws reviewed	6	6
Percentage of compliance with legal prescripts, policies, procedures and by-laws.	100%	100%
To assist 14 wards with agricultural and fencing material	14 wards	14 wards

The municipality did not have documented and approved internal policies and procedures to address the process of collection, recording, processing, monitoring and reporting of performance information.

Internal control deficiency

The municipality did not have documented and approved internal policies and procedures to address the process of collection / recording / processing / monitoring / reporting of performance information.

Recommendation

The municipal manager must implement and monitor processes for collecting, recording, and reporting on performance information.

Management response

In some instances the reports are done as some of the measurable outputs are operational and have to be reported on.

Name : ME Ngonyama

Position : Accounting Officer

Date

Auditor's conclusion

Inclusion in the emphasis of matter paragraph in the audit report

Revenue

9. Amount not accounted for on the Financial Statements (Electricity)

Audit finding

Section 122 of Municipal Finance Management Act state that “Every municipality and every municipal entity must for each financial year prepare annual financial statements which— fairly presents the state of affairs of the municipality or entity, its performance against its budget, its management of revenue, expenditure, assets and liabilities, its business activities, its financial results, and its financial position as at the end of the financial year”

And

Section 62 of Municipal Finance Management Act state that “The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control and of internal audit operating in accordance with any prescribed norms and standards”

During the audit of revenue it was noted the electricity units on hand at year end has not been accounted for on the financial statements. Details below indicate a balance existed at year end:

Details	Amount
General Expenses: Purchases of electricity	6,080,358.00
Revenue : Sale of Electricity	-2,568,878.00
Electricity amount not accounted for on the AFS	3,511,479.00

Financial statement not reviewed to ensure complete disclosure. Misstatements in the Annual Financial Statement

Internal control deficiency

The acting chief financial officer did not ensure effective, efficient and transparent systems of financial statement preparation and review.

Recommendation

The acting chief financial officer should review our finding above and make corrections required.

Management response

Management agrees with the finding. However, electricity losses will be disclosed as a sub note under note 21-Irregular Expenditure, with sub title-Material Losses.

Auditor's conclusion

The loss will be included under emphasis of matter paragraph in the audit report

ANNEXURE B: OTHER IMPORTANT MATTERS

10. Creditors Reconciliation

Audit finding

Section 98 of the Municipal Finance Management Act (MFMA) states that "The Accounting officer of a municipal entity must take all reasonable steps to ensure all accounts of the entity are reconciled each month"

During the audit of trade and other payables, it was noted that creditors' reconciliations are not performed.

The chief financial officer did not ensure the creditors reconciliation is performed every month

Incorrect amount disclosed on the financial statements

Internal control deficiency

Controls over daily and monthly processing and reconciling of transactions relating to accounts payables were not implemented.

Recommendation

The Chief Financial Officer must ensure that the creditor's reconciliation is performed and reviewed on the monthly basis.

Management response

Management agrees with the finding and an accountant has been appointed who will manage this process going forward.

Auditor's conclusion

This finding will be followed up at the next audit.

Predetermined objectives

11. No link between the development objectives and budget

Audit finding

MFMA Circular No. 45 Municipal Finance Management Act No. 56 of 2003 state that "Municipalities must ensure that their proposed budgets have clear and unambiguous linkages to their IDP and LED strategies. They must also assess the extent to which those budgets, IDPs and LED strategies are aligned and give effect to or complement national and provincial priorities listed above.

During the audit, it was noted that there was no link between the municipality's development objectives and the amount budgeted for the development objectives and actual expenditure for the development objectives. The following are details:

Development Objective	Budgeted amount
Good governance	No link to budget
Socio economic development	No link to budget
Financial viability	No link to budget
Institutional transformation	No link to budget

The municipal manager did not implement sufficient controls to ensure the proper implementation of the overall budgeting and integrated development plan

The municipality's budget might be insufficient to carry out its duties in terms of the development objectives.

Internal control deficiency

Insufficient monitoring controls in place to ensure the proper implementation of the overall budgeting and integrated development plan.

Recommendation

The municipal manager must review the existing controls over the compilation of the budget and integrated development plan to ensure that the budget and integrated development complies with the minimum legislative requirements.

Management response

Management agrees with the finding and performance will be improved at next audit as a performance manager has been appointed at the municipality.

Auditor's conclusion

This finding will be included in the audit report.

Revenue

12. No reconciliation of revenue from the collecting Agent (Boxer Superstores)

Audit finding

Section 64 of the Municipal Finance Management Act state that “The accounting officer must take all reasonable steps to ensure that all revenue received by the municipality, including revenue received by any collecting agent on its behalf, is reconciled at least on a weekly basis.”

During the audit, it was noted that no weekly or monthly reconciliation was performed between the sales of electricity units to the revenue received from Boxer Superstores.

Poor controls over management of revenue

- Misstatement of revenue amount on the AFS
- Revenue disclosed is not complete

Internal control deficiency

The acting chief financial officer did not ensure that internal controls are designed and implemented properly

Recommendation

The chief financial officer should ensure that a reconciliation of revenue received to the electricity units sold by the agent is reconciled at least on a weekly basis.

Management response

Management agrees with the finding. Due to a shortage of staff in the revenue section within the finance department, it was impracticable to perform weekly reconciliations between the sales of electricity units to the revenue received. However, the municipality

has, with effect from 13 August 2012 appointed an Income Officer to capacitate the finance department. The Income Officer will perform monthly reconciliations, which will then be reviewed by the Accountant–Income.

The Chief Financial Officer has concluded the contract with Boxer Stores; which stipulates that Boxer Stores must submit moneys collected on monthly basis.

Auditor's conclusion

Response satisfactory, to be audited on the next audit cycle

13. Distribution losses is not monitored on a month to month basis

Audit finding

In terms of section 61 (1) (d) of the Municipal Finance Management Act, 2003 (Act No. 53 of 2003), the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that unauthorized, irregular or fruitless and wasteful expenditure and other losses are prevented

During the audit of revenue it was noted that the municipality does not monitor the distribution losses relating to electricity on a month to month basis.

Chief financial officer did not monitor losses on electricity

Deficit on the sale of electricity

Internal control deficiency

The accounting officer does not exercise oversight regarding compliance with laws and regulations relating to financial management.

Recommendation

It is recommended that distribution losses should be monitored so that methods could be introduced to reduce these losses that are occurring at the municipality.

Management response

Agree with the finding, the distribution losses has been a challenge to determine on the month to month basis due to the system not being able to calculate electricity sales in kw as it only gives the amount of sales in rands, to solve this problem going forward, we have involved the services of the Ulungeni Consultants to give us a report in kw of electricity sold on a monthly basis, while engaging BCX to enable the system to produce these reports automatically. Secondly the Revenue has been operating with only one staff member the Revenue Accountant and Intern. We have since appointed the Income Officer on the full time basis who will be responsible to perform month end reconciliations and reports. We will disclose electricity losses in the quarterly financial statements and then quantify them on monthly basis thereafter.

Auditor's conclusion

This will be followed up on the next audit cycle

ANNEXURE C: ADMINISTRATIVE MATTERS

No matters to report on.

ANNEXURE D: FINANCIAL INDICATOR ANALYSES

The analyses on which the financial indicators and discussion in *PART D – FINANCIAL INDICATORS* under *SECTION 3: SPECIFIC FOCUS AREAS* are based are set out below.

BUDGETS

Indicator reference	Financial statement amounts	Adjustments for material uncorrected misstatements	Financial statement amounts after adjustments for material uncorrected misstatements
	2011/12 R'000	2011/12 R'000	2011/12 R'000
Final approved operating expenditure budget	92 654 039		92 654 039
Under/(over) spending of the final approved operating expenditure budget	32 155 225		32 155 225
Final approved capital budget	limitation		limitation
Under/(over) spending of the final approved capital budget	limitation		limitation

2011/12

Percentage over spending of the final approved operating expenditure budget	1.1	%
Percentage under spending of the final approved capital budget	1.2	Not over spent
		limitation

EXPENDITURE MANAGEMENT

	Indicator reference	Financial statement amounts	Adjustments for material uncorrected misstatements	Financial statement amounts after adjustments for material uncorrected misstatements
		2011/12 R'000	2011/12 R'000	2011/12 R'000
Accounts payable		1 108 980		1 108 980
Total purchases		30 059 379		30 059 379
Creditor-payment period (Accounts payable ÷ Total purchases x 365)	2.1			2011/12 Days 13

	Indicator reference	Financial statement amounts	Adjustments for material uncorrected misstatements	
		2011/12 R'000	2011/12 R'000	2011/12 R'000
Accounts receivable (before impairment)		12 889 888		12 889 888
Debtors impairment provision at year-end		7 748 319		7 748 319
Total revenue for services rendered for the year		7 048 123		7 048 123
Debtors written-off for the year		0	0	0

Debtor-collection period (Days)				2011/12 Days
(Accounts receivable [before impairment] ÷ Total revenue for services rendered x 365)	4.1			668
Debtor-collection period (Days)				
(Accounts receivable [after impairment] ÷ Total revenue for services rendered x 365)	4.2			266

Debtors impairment provision at year-end as a percentage of accounts receivable	4.3			2011/12 %
				60.1%
Debtors written-off for the year as a percentage of total revenue for services rendered for the year	4.4			
				0.0%

Material water losses

(Total of technical/real/physical losses plus non-technical/apparent/commercial losses; i.e. portion of total input into system/volume available not able to be billed)

4.5

Material electricity losses

(Total of technical losses plus non-technical losses; i.e. portion of total input into system/kWh available not able to be billed)

4.6

2011/12

%

n/a

57.8%

CONDITIONAL GRANTS

Conditional grants received

Under/(over) spending of the conditional grants received

Financial statement
amounts

2011/12
R'000

43 024 340

2 636 596

Adjustments for
material
uncorrected
misstatements

2011/12
R'000

Financial statement
amounts after
adjustments for
material
uncorrected
misstatements

2011/12
R'000

43 024 340

2 636 596

Unspent conditional grants received at year-end	39 919 420		39 919 420
Cash and cash equivalents / (bank overdraft) at year-end	43 217 358		43 217 358

			2011/12 %
Percentage under-spending of conditional grants received	3.1		6.1%
Percentage by which unspent conditional grants received exceed cash available at year-end	3.2		Not exceeded

REVENUE MANAGEMENT

ASSET AND LIABILITY MANAGEMENT

	Indicator reference	Financial statement amounts 2011/12 R'000	Adjustments for material uncorrected misstatements 2011/12 R'000	2011/12 R'000
Total revenue for the year		87 834 767		87 834 767
Total expenditure for the year		60 498 814		60 498 814
Surplus / (deficit) for the year	5.1	0	0	0
Total current assets		55 585 827		55 585 827
Total current liabilities		42 072 483		42 027 483
Net current assets / (liabilities)	5.2	0	0	0

	Indicator reference	Financial statement amounts	Adjustments for material uncorrected misstatements	
Total non-current assets		211 534 218		211 534 218
Total non-current liabilities		3 927 907		3 927 907
Net non-current assets / (liabilities)		207 606 311	0	207 606 311
Total assets		267 120 045	0	267 120 045
Total liabilities		46 000 390	0	46 000 390
Net assets / (liabilities)	5.3	221 119 655	0	221 119 655
Cash and cash equivalents / (bank overdraft)	5.4	0	0	43 217 358
Year-end carrying amount of the category(ies) of PPE that were subject to impairment				0
Year-end carrying amount of the category(ies) intangible assets that were subject to impairment				0
		0	0	0
Year-end carrying amount of investments, if subject to impairment				0
Year-end carrying amount of loan receivables (loans awarded), if subject to impairment				0
		0	0	0
PPE impairment provision at year-end		0	0	0

	Indicator reference	Financial statement amounts	Adjustments for material uncorrected misstatements	
Intangible assets impairment provision at year-end		0	0	0
		0	0	0
Investments impairment provision at year-end		0	0	0
Loan receivables (loans awarded) impairment provision at year-end		0	0	0
		0	0	0
Long term employee benefit obligations				0
Net cash in- / (out-) flows from operating activities				0

PPE and intangible assets impairment provisions at year-
end as a percentage of the carrying amount of the
category(ies) of PPE and intangible assets subject to
impairment

5.5

Loan receivables (loans awarded) and investments
impairment provisions at year-end as a percentage of the
carrying amount of investments and loans subject to
impairment

5.6

2011/12
%

0.0%
-

2011/12

	Indicator reference	Financial statement amounts	Adjustments for material uncorrected misstatements	Ratio
Long-term debt to operating cash flows ratio	5.7			0.1
Employee benefit obligations to operating cash flow ratio	5.8			0.0

CHAPTER 4: SECTION 121 (3) D: AUDITOR GENERAL'S REPORT

REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL LEGISLATURE AND THE COUNCIL ON NKANDLA MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the Nkandla Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2012, the statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting Officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and Division of Revenue Act of South Africa, 2011 (Act No. 6 of 2011) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the *General Notice* issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain

reasonable assurance about whether the financial statements are free from material misstatement.

4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Nkandla Municipality as at 30 June 2012, and its financial performance and cash flows for the year then ended in accordance with the SA Standards of GRAP and the requirements of the MFMA and DORA.

Emphasis of matters

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Material losses

8. As disclosed in note 21.1 to the financial statements, electricity losses to the amount of R3 511 479 were incurred as a result of electricity bypass, meters with no movement, meters readings not loaded onto the system, poor collection, lack of credit control, free basic electricity and lack of capacity within the revenue section and technical services.

Irregular Expenditure

9. As disclosed in note 21 to the financial statements, irregular expenditure amounting to R29 817 538 was incurred due to non-compliance with Municipal Supply Chain Management (MSCM) regulations.

Fruitless and wasteful expenditure

10. The municipality incurred fruitless and wasteful expenditure of R22 651 as a result of legal fees as disclosed in note 21 of the financial statements.

Additional matter

11. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited supplementary schedules

11. The supplementary schedules set out on pages XX to XX do not form part of the financial statements and are presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

12. In accordance with the PAA and the *General Notice* issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

13. I performed procedures to obtain evidence about the usefulness and reliability of the information in the name of annual performance report as set out on pages ... to ... of the annual report.
14. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National

Treasury annual reporting principles and whether the reported performance is consistent with the planned objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the *National Treasury Framework for managing programme performance information*.

The reliability of the information in respect of the selected programmes is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

The material findings are as follows on annual performance report concerning the usefulness and reliability of the information.

Usefulness of annual performance report

Measurability

Performance targets not specific

15. The *National Treasury Framework for managing programme performance information (FMPPI)* requires that performance targets be specific in clearly identifying the nature and required level of performance. A total of 35% of the targets relevant to Key performance area (KPA): Good Governance, Infrastructure and Basic services and Local Economic Development were not specific in clearly identifying the nature and the required level of performance. This was due to the fact that management was had not applied the requirements of the FMPPI which resulted in inadequate controls being developed relating to the on how to development of data indicators and targets.

Performance indicators not well-defined

16. The *National Treasury Framework for managing programme performance information (FMPPI)* requires that indicators/measures should have clear unambiguous data definitions so that data is collected consistently and is easy to understand and use. A total of 100% of the indicators relevant to Key performance area (KPA): Good Governance, Infrastructure and Basic services and Local Economic Development were not well defined in that clear, unambiguous data definitions were not available to allow for data to be

collected consistently. This was due to the fact that management was not aware of the requirements of the FMPPI to have the data definition documented.

Performance Indicators not verifiable

17. The *National Treasury Framework for managing programme performance information (FMPPI)* requires that it must be possible to validate the processes and systems that produce the indicator. A total of 100% of the indicators relevant to Key performance area (KPA): Good Governance, Infrastructure and Basic services and Local Economic Development were not verifiable in that valid processes and systems that produce the information on actual performance did not exist. This was due to the lack of relevant systems of collection/collation/verification/storage of actual performance information.

Consistency

Reported targets are not consistent with planned targets.

18. The Municipal Systems Act, section 41(c) requires that the integrated development plan should form the basis for the annual report, therefore requiring the consistency of objectives, indicators and targets between planning and reporting documents, However during the audit total of 38% of the reported indicators targets are not consistent with the targets as per the approved integrated development plan. This is due to the lack of review and monitoring of the compliance by management

Reliability of information

Reported performance not valid

19. The *National Treasury Framework for managing programme performance information (FMPPI)* requires that processes and systems which produce the indicator should be verifiable. A total of 100% of the actual reported performance relevant to the selected Key performance area (KPA): Good Governance, Infrastructure and Basic services and Local Economic Development were not valid when compared to the source information and evidence provided. This was due to a lack of standard operating

procedures for the recording of actual achievements and the department did not implement and fill the organisational structure required to report on performance.

Reported performance not accurate

20. The *National Treasury Framework for managing programme performance information (FMPPi)* requires that the indicator be accurate enough for its intended use and respond to changes in the level of performance. A total of 100% of the actual reported indicators relevant to selected Key performance area (KPA): Good Governance, Infrastructure and Basic services and Local Economic Development were not accurate when compared to source information. This was due to a lack of standard operating procedures for the recording of actual achievements and the department did not implement and fill the organisational structure required to report on performance.

Performance information additional matters

I draw attention to the matters below. My conclusion is not modified in respect of these matters

Achievement of planned targets

21. The annual performance report that is presented for audit is not useful in specifying annual achievements against annual planned targets, therefore there is limitation of scope in reporting under this paragraph

Material adjustments to the name of annual performance report

22. No material audit adjustments in the annual performance report were identified during the audit.

Compliance with laws and regulations

23. I performed procedures to obtain evidence that the municipality has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the *General Notice* issued in terms of the PAA are as follows:

Annual financial statements

24. The financial statements submitted for auditing were not prepared in all material respect in accordance with the requirements of section 122 of the MFMA. Material misstatement of notes to the financial statements identified by the auditors was subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Procurement and contract management

25. Goods and services with a transaction value of between R10 000 and R200 00 were procured without obtaining written price quotations from at least three different prospective providers as per the requirements of SCM regulation 17(a) & (c) PN 8 of 2007/08.
26. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids as per the requirements of SCM regulation 19(a) and 36(1) or TR 16A.6.4 and PN 8 of 2007/08].
27. The accounting officer did not take reasonable steps to prevent irregular expenditure and fruitless and wasteful expenditure, as required by section 62(1) (d) of the MFMA.

Internal control

28. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

29. The accounting officer and council did not perform oversight by reviewing the annual financial statement and performance report in details to ensure that all reported information is credible, complete, complies with all laws and regulation and is supported by reliable documents.

Financial and performance management

30. The accounting officer of a municipality did not take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial and performance, risk management and internal control in accordance with prescribed norms and standards.

Pietermaritzburg

30 November 2012



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Chapter 5: Annual Performance Report:

Section 46 of the MSA

See Annexure B: Section 46 Report for 2011/12

MUNICIPAL PERFORMANCE/MONITORING AND EVALUATION

Like all other Municipalities, Nkandla has the Integrated Development Plan that includes priorities and objectives, which comply with the National Key Performance Areas. The IDP constitutes the setting of the Municipal Key Performance Indicators and measurable targets (SMART).

Performance is monitored in terms of set targets, which lead to measurement and review to detect targets that are not achievable and reasons of not achieving the targets and remedial steps taken to correct deviations of actions. The review process takes the form of an annual report, which needs to include recommendations on areas for improvement. The Municipality has established monitoring and measuring mechanism, the Performance Audit Committee, Internal Audit Committee and the MPAC. All these Committees report to the Council.

The purpose of this report is to give an overview of the Municipal Performance against the set targets of individuals and the organization as a whole at the beginning of the 2011/12 financial year. Service delivery and budget implementation plan has been the tool based on IDP to determine the alignment of budgeted services on which the Municipality can afford to implement.

In compliance to section 46 (i) of the MFMA, Municipality must prepare for each financial year performance report in accordance to sub-sections (a) (b) and (c). In each quarter these reports are submitted to the Internal Auditors for verification and interrogation who after intensive scrutiny will submit the report to the Performance Audit Committee that will also analyze and comments for the presentation to Council for adoption of the reports with regard to the Municipal Performance for the year.

2011/12 ANNUAL PERFORMANCE REPORT

1. PURPOSE & LEGAL MANDATE

Section 46, Chapter 6 of the Municipal Systems Act states that a municipality must prepare for each financial year a performance report reflecting:

- A) The performance of the municipality and each external service provider during the financial year;
- B) A comparison of performances with targets set for and the performances of the previous year; and
- C) Measures taken to improve performance

This performance must be reflected as part of the Annual Report of the Municipality.

2. BACKGROUND

At the beginning of the financial year, council adopted a performance score-card which was prepared with the guidance of COGTA. This score-card was based on the key performance areas of Local government and the Municipal Key Objectives as set in the Municipal IDP. Hereunder is the performance of the organization based on the number of set targets and those that were met and unmet within each KPA.

3. KEY PERFORMANCE AREAS & TARGETS

1. GOOD GOVERNANCE & PUBLIC PARTICIPATION

In this KPA this Municipality set itself 11 annual targets, and was able to achieve 10 of those targets which means it achieved 91% of its targets.

2. ORGANIZATIONAL TRANSFORMATION & CAPACITY BUILDING

In this KPA this Municipality set itself 19 annual targets, and was able to achieve 23 of those targets which means it achieved 83% of its targets.

3. SOCIO & ECONOMIC DEVELOPMENT

In this KPA this Municipality set itself 17 annual targets, and was able to achieve 15 of those targets which means it achieved 89% of its targets.

4. FINANCIAL MANAGEMENT & VIABILITY

In this KPA this Municipality set itself 17 annual targets, and was able to achieve 1 of those targets which means it achieved 82% of its targets.

5. INFRA-STRUCTURE AND BASIC SERVICE DELIVERY

In this KPA this Municipality set itself 13 annual targets, and was able to achieve 12 of those targets which means it achieved 92% of its targets.

6. OVERALL PERFORMANCE

Based on the above, the performance per KPA, the Municipal Overall performance can be averaged as 87, 4%

CHAPTER 6: SECTION 121 (E) OF MFMA

ASSESSMENT OF ARREARS ON MUNICIPAL TAXES & SERVICES

MATERIAL LOSSES - ELECTRICITY	
Opening balance	-
Electricity Purchases	6 080 358
Electricity Sales	2 568 878
Loss for the year	3 511 479
Reasons for the loss:	
<i>Electricity bypass</i>	
<i>Meters with no movement</i>	
<i>Meters not loaded onto the system</i>	
<i>Poor collection</i>	
<i>Lack of credit control</i>	
<i>Free basic electricity</i>	
<i>Lack of capacity within the revenue section & Technical Services</i>	

CHAPTER 7: SECTION 121 (3) (F) OF MFMA

ASSESSMENT BY MUNICIPALITIES ACCOUNTING OFFICER IN TERMS OF SECTION 17 (3)(B)

20 Statement of comparative and actual information				
Financial performance				
	Final budget	Actual Outcome	Variance	Actual Outcome as % budget
Propety rates	1 600 000	1 493 944	(106 056)	93%
Service charges	6 418 942	2 946 920	(3 472 022)	46%
Transfers recognised grants	83 886 000	80 746 699	(3 139 301)	96%
Other own revenue	2 349 098	2 647 205	298 107	113%
TOTAL INCOME	94 254 040	87 834 767	(6 419 273)	93%
Employee costs	17 429 533	11 553 847	(5 875 686)	66%
Remuneration of councillors	4 714 863	4 872 124	157 261	103%
Transfers and grants	33 342 729	6 849 518	(26 493 211)	21%
Other own expenditure	27 288 422	37 223 325	9 934 903	136%
TOTAL EXPENDITURE	82 775 547	60 498 814	(22 276 733)	327%
Surplus/(Deficits)	11 478 493	27 335 954	15 857 461	-233%

CHAPTER 8: SECTION 121 (3) (G),(H) & I) OF MFMA

AUDIT RESPONSE PLAN

ACTION PLAN ON AUDITOR GENERAL'S REPORT FOR 2012/13 (OFFICE OF THE MUNICIPAL MANAGER)

AG'S QUERY	QUERY NUMBER	CAUSES	SPECIFIC SOLUTIONS	ACTIVITIES TO RESOLVE MATTERS	RESOURCES REQUIRED (FINANCIAL, HR & DECISION-MAKING)	TIME-FRAMES	RESPONSIBILITY
Quotations not obtained from at least 3 different service providers	1	Deviation from the Municipal Score-card which yields emergency events.	Develop a comprehensive Municipal Scorecard and develop the Annual calendar of events.	Development of a Comprehensive Municipal Scorecard.	Human Resources	24 January 2013	Manager:OMM
		Targeted Service providers	SCM Policy to incorporate that there are services that cannot be obtained from three service providers.	Review the SCM Policy and be work-shopped to all staff.	Human Resources	8 February 2013	CFO
		Poor Planning	SCM Policy to incorporate that there are services that cannot be obtained from three service providers.	Review the SCM Policy	Human Resources	8 February 2013	CFO
		Natural Disasters	SCM Policy to accommodate these exceptions.	Review the SCM Policy	Human Resources	8 February 2013	CFO
Procurement Process not followed	2	Targeted Service Providers	SCM Policy to incorporate that there are services that cannot be obtained from three service providers.	Review the SCM Policy	Human Resources	8 February 2013	CFO
		Poor Planning	SCM Policy to incorporate that there are services that cannot be obtained from	Review the SCM Policy	Human Resources	8 February 2013	CFO

			three service providers.				
		Minimal buy-in into the Municipal Performance Plan	Municipal Manager and Speaker to own the Municipal score-card	Review of the Municipal Scorecard	Human Resources	24 JAN.2013	Speaker MM
Inconsistencies between planned and reported objectives	3	Deviation from the original score-card when reporting	Review PMS Score-card and Framework	Focus on Individual Performance assessments	Human Resources		Manager: OMM
		The PMS Methodology	There was no uniform understanding of the PMS	Work-shop on all staff & Councilors on Municipal PMS	Human Resources	March 2013	Manager: OMM
Inconsistencies between planned and reported annual targets	4	Deviation from the original score-card when reporting	Review PMS Score-card and Framework	Regular Individual Performance Assessments	Human Resources	March 2013	MM
Levels of Performance not clearly identified	6	Targets were not clearly set and understood	Revisit the 2012/13 Municipal Scorecard to determine whether the Municipal Targets are clear and SMART	Undertake Mid-Term Review	HR	January 25 2012	MM
		All employees must have a performance plan	Cascade PMS to all	Review PMS Framework	HR	June 2013	MM
Performance is not Measurable	7	Targets were not clearly set and understood	Revisit the 2012/13 Municipal Scorecard to determine whether the Municipal Targets are clear and SMART	Undertake Mid-Term Review	HR	January 25 2012	MM
Reported targets could not be traced to source documents	8	Lack of evidence that performance has been undertaken	Individual assessments must be undertaken	Regular Individual Performance Assessments	Human Resources	March 2013	MM

ACTION PLAN ON AUDITOR GENERAL'S REPORT FOR 2012/13 (CORPORATE SERVICES)

AG'S QUERY	QUERY NUMBER	CAUSES	SPECIFIC SOLUTIONS	ACTIVITIES TO RESOLVE MATTERS	RESOURCES REQUIRED (FINANCIAL, HR & DECISION-MAKING)	TIME-FRAMES	RESPONSIBILITY
Quotations not obtained from at least three different providers	1	1. One service provider 2. Urgent situations 3. No alternative service providers (e.g Fleurdale B & B, Battlefields))	1. Follow deviation process	1. Ensure that deviation is followed	HR (HOD of user department and Accounting Officer)	As if and when required throughout the year	ALL Departments
Procurement process not followed	2	1. Matters that need Council resolution due to recommendations by other sector departments e.g ESKOM and other municipalities	1. Follow deviation process 2. Disclose to AG and produce source documents 3. Projects Plans must be developed to determine the target dates for specific activities.	1. Compile trail documents for the transaction	Human Resources	31 January 2013	CFO And All user Departments (in terms of submission of information)

Inconsistence between planned and reported objectives (this covers up to number 8)	3	1. Poor planning 2. Lack of consistence monitoring and performance reviews during the year 3. Inherited Scorecard (from CoGTA) 4. Not following SMART principle (Using % instead of numbers)	1. Develop user -friendly scorecard 2. Conduct performance reviews quarterly 3. Apply SMART principle 4. Appoint for specific posts	1. Develop user – friendly scorecard 2. Review scorecard mid -year	Human Resources	31 January 2013 31 March 2013 (Reviews)	ALL HODs
Amount not accounted for on the Financial Statements	9	1. Lack of proper billing system 2. Poor reporting 3. Failure to disclose information in AFS	1. Review billing system 2. Implement steps to eradicate by-pass 2. Ensure disclosure in AFS	1. Develop Plan which will address electricity revenue matters	Human Resources Financial resources	31 June 2013	CFO
Creditors Reconciliation	10	1. Lack of controls	1. Review creditors recon on monthly basis	1. CFO to review the recon monthly	Human Resources	Monthly basis	CFO
No link between the development objectives and budget	11	1. No alignment in IDP and Budget	1. Develop aligned process plan and monitor the link	1. Prepare clear plan for implementation of the two master plans as preparation for	Human Resources	31 March 2013 (Drafts)	CFO and IDP Manager ALL HoDs

			between the two master plans 2. Revive the IDP stakeholder Forum	2013/2014			
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ACTION PLAN ON AUDITOR GENERAL'S REPORT FOR 2012/13 (COMMUNITY SERVICES)

AG'S QUERY	QUERY NUMBER	CAUSES	SPECIFIC SOLUTIONS	ACTIVITIES TO RESOLVE MATTERS	RESOURCES REQUIRED (FINANCIAL, HR & DECISION-MAKING)	TIME-FRAMES	RESPONSIBILITY
Three quotations not obtained	3	Emergencies Specific service providers – Taxi Associations Artists	Three quotes sourced even if there is a specific service provider	Convene a meeting with Taxi Associations	HR Decision-making	31 March 2013	Finance User departments
Competitive Bidding		Not enough understanding of SCM Regulations and policy	User departments to work with Finance (SCM)	Prepare project plans and submit to Finance at the beginning of the year	HR Decision-making	31 March 2013	Finance User department
Inconsistencies between planned and reported objectives		Unrealistic objectives Lack of communication with other service providers Dysfunctional PMS	PMS Audit Unit to monitor SDBIP and reports Consider IDP	Regular assessment of performance Prepare monthly reports within the departments	HR	30 June 2013	OMM All other departments

			when preparing SDBIP Sufficient time for proper planning				
Levels of performance not clearly identified		Targets not “SMART”	SMART targets	Brainstorming Exercises on targets Workshop staff on budget and IDP	HR	30 June 2013	OMM
Performance not measurable		Targets not “SMART”	SMART targets	Brainstorming Exercises on targets Workshop staff on budget and IDP	HR	30 June 2013	OMM
Reported targets not traceable to source documentation		Incomplete evidence Adhock reporting	PMS Audit Unit to monitor SDBIP and reports Sufficient time for proper planning	Prepare monthly reports within the departments Keep all reports and evidence centrally within the departments	HR Decision-making	30 June 2013	OMM

ACTION PLAN ON AUDITOR GENERAL'S REPORT FOR 2012/13 (FINANCE DEPARTMENT)

AG'S QUERY	QUERY NUMBER	CAUSES	SPECIFIC SOLUTIONS	ACTIVITIES TO RESOLVE MATTERS	RESOURCES REQUIRED (FINANCIAL, HR & DECISION-MAKING)	TIME-FRAMES	RESPONSIBILITY
3Qoutations not obtained	3	<ul style="list-style-type: none"> Requisitions are received late from end user departments Poor planning from the management Lack of SCM procurement plan from departments 	<ul style="list-style-type: none"> Preparation of SCM procurement plan Monitoring of SDBIP of each department Completion of Deviation form and submission to Council and MEC, this only for emergency situation Workshop SCM policy and training of junior staff Review of SCM Policy annually and involvement of all staff members 	<ul style="list-style-type: none"> Review of SCM Policy annually and involvement of all staff members 	No Human resources required as we have enough personnel	ongoing	CFO

Creditors Recons		<ul style="list-style-type: none"> Capacity 	<ul style="list-style-type: none"> Accountant with the assistance of financial intern are going performing this task 	<ul style="list-style-type: none"> Performance of monthly recons and review by CFO 	Accountant	31 Jan 2013 there after monthly	CFO
Loss of Electricity not disclosed in the AFS		<ul style="list-style-type: none"> Theft of Electricity by community No one assigned the responsibility of electricity consumption review 	<ul style="list-style-type: none"> Revenue report against consumption not performed Statements not issued to debtors (communication of debt not done) 	<ul style="list-style-type: none"> Appointment of electrical engineer to assist the revenue section with detection of electricity theft, in progress Installation of smart meters, funding in application. the revenue section be allocated a revenue accountant to head the unit , end of financial and depending 			CFO

				on pending disciplinary hearings and council resolution to appoint/reinstate			
	12	<ul style="list-style-type: none"> Capacity 	<ul style="list-style-type: none"> Accountant with the assistance of financial intern are going performing this task 	<ul style="list-style-type: none"> Performance of monthly recons and review by CFO Income officer appointed 	Income officer		CFO
	13		<ul style="list-style-type: none"> Contracted consultant appointed to assist - to issue report on electricity distributed in kilowatts/ Monitoring of electricity meters not counting not done 				

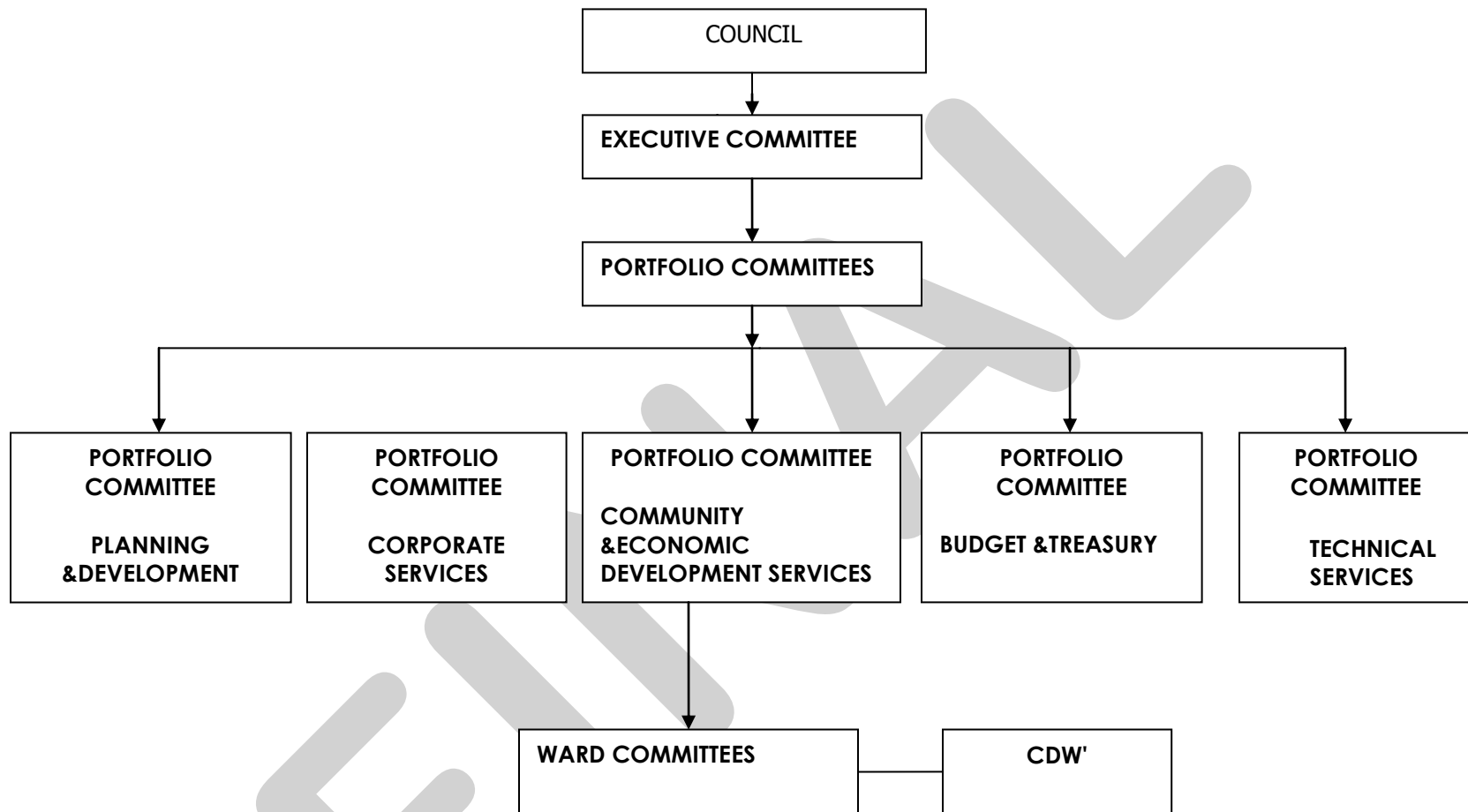
CHAPTER 9: SECTION 121 (3) (K) OF MFMA

ADDITIONAL INFORMATION

MUNICIPAL INSTITUTIONAL ARRANGEMENTS

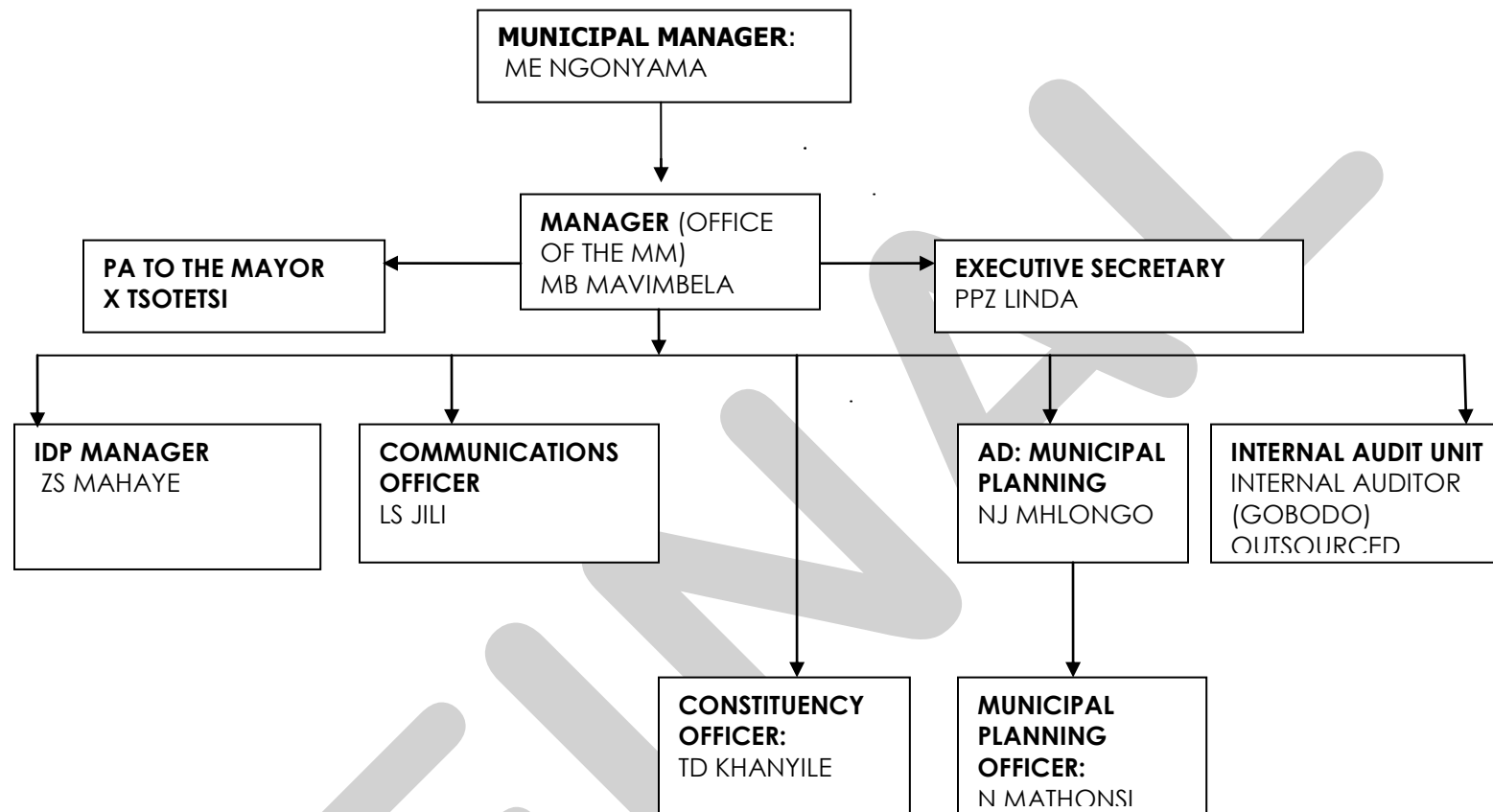
The diagram below shows abridged framework for institutional arrangements of leadership and administration in the Municipality. The Municipality has a total workforce of 66 staff members being distributed among five (5) departments. The current Nkandla Local Municipality administration comprises of the following departments:-

- Office of the Municipal Manager (EXCO & Council)
- Corporate Services
- Community & Economic Development Services
- Budget & Treasury
- Technical Services

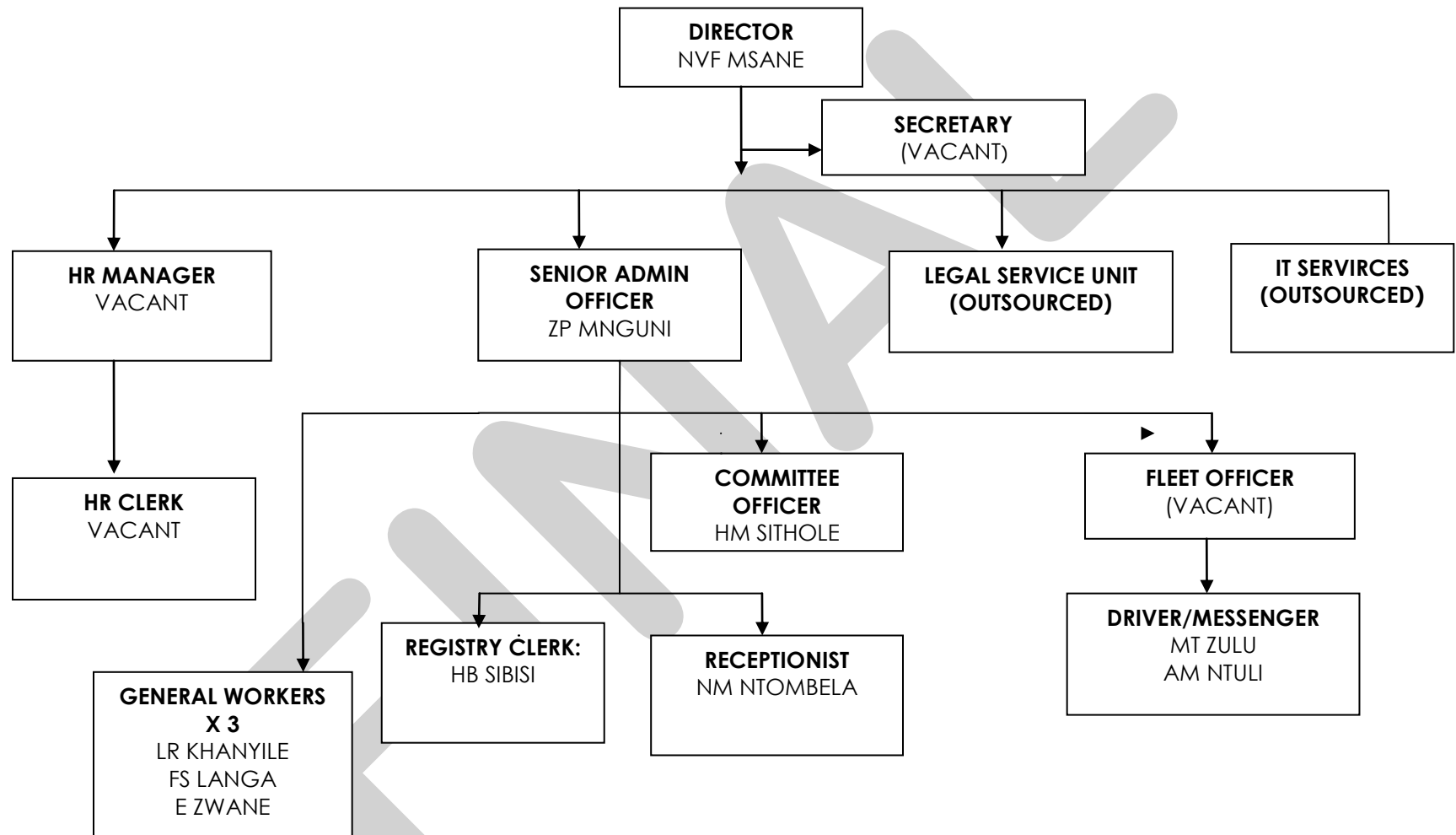


ORGANISATIONAL STRUCTURE

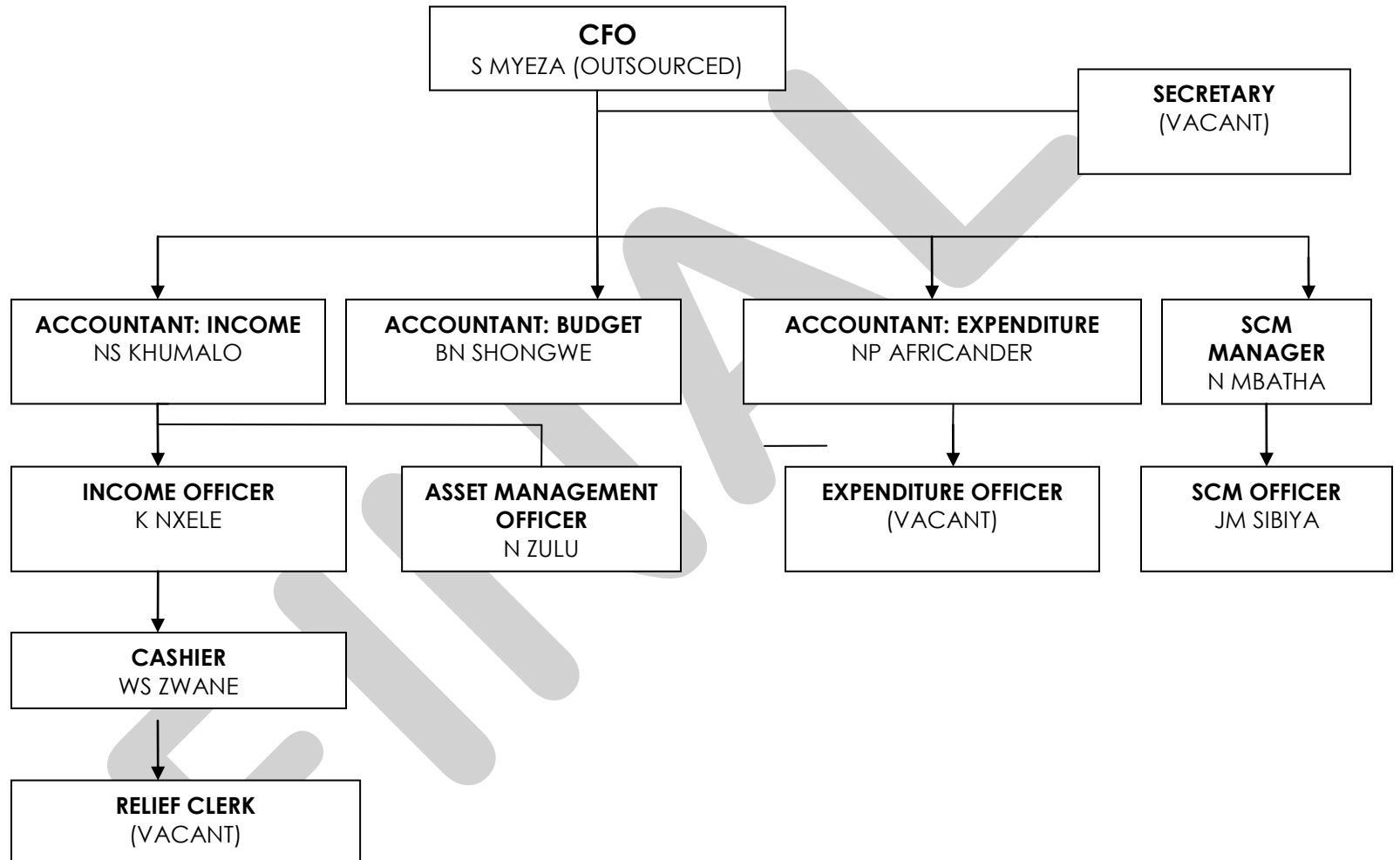
OFFICE OF THE MUNICIPAL MANAGER

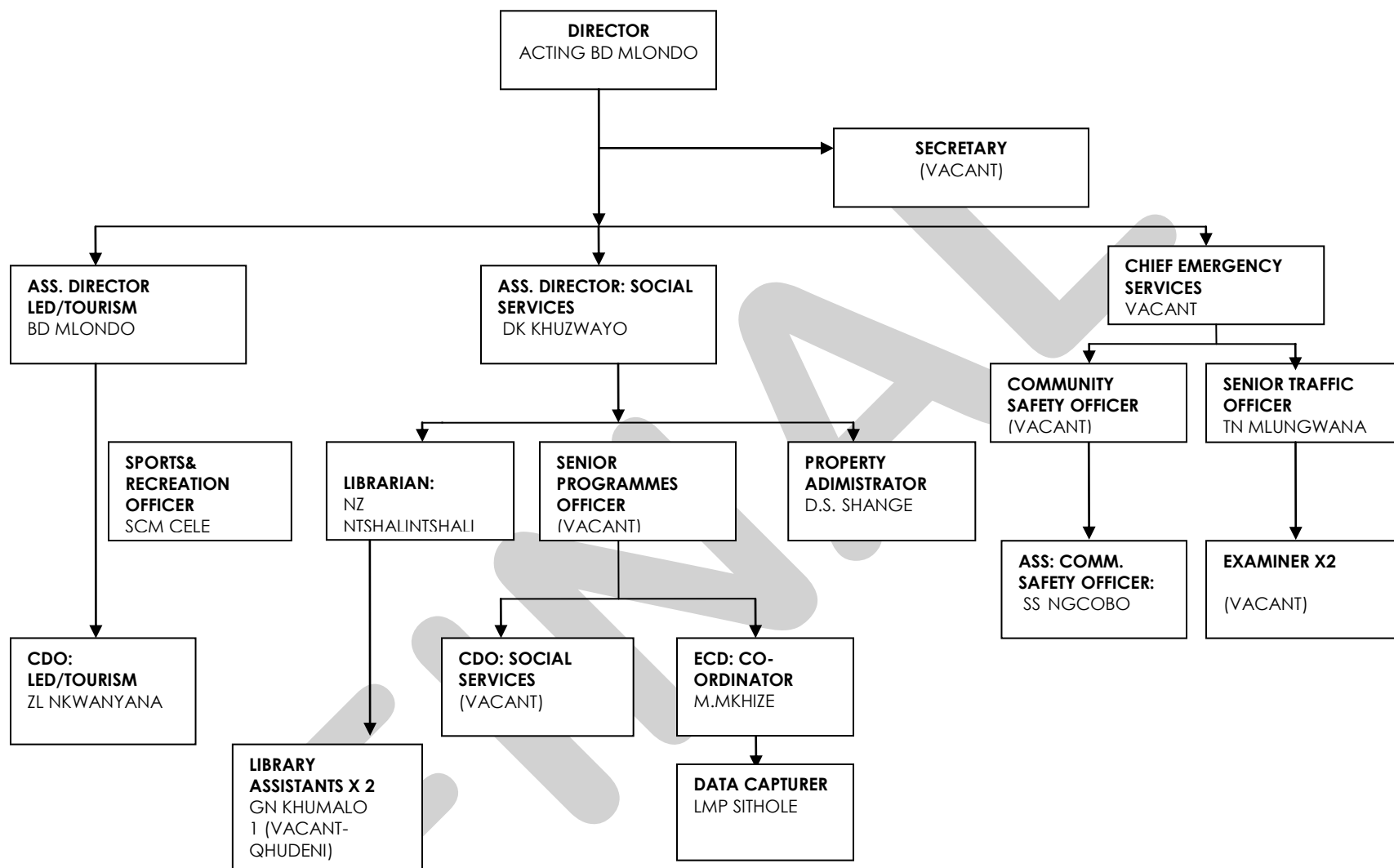


CORPORATE SERVICES DEPARTMENT

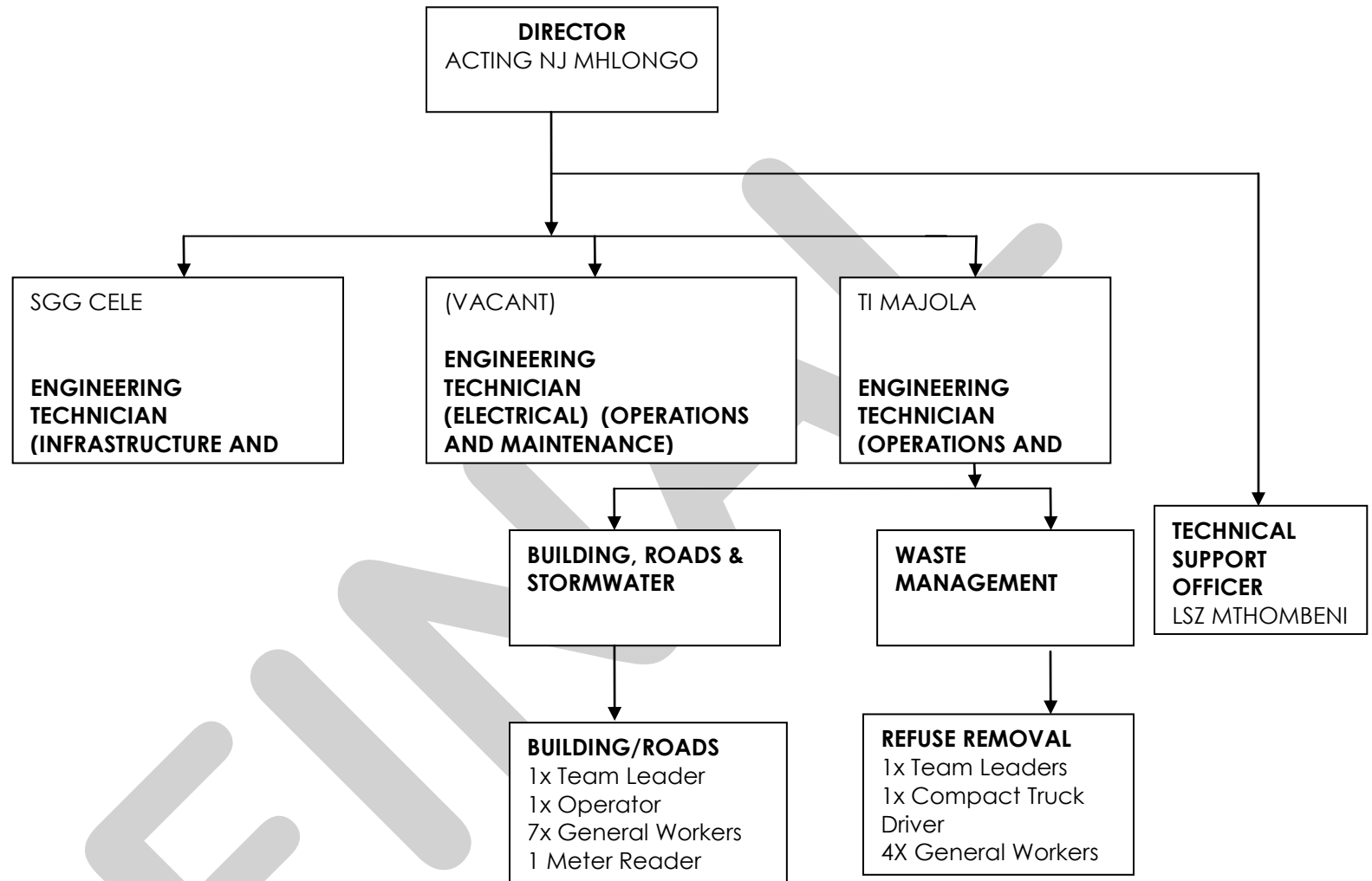


BUDGET & TREASURY DEPARTMENT





COMMUNITY & ECONOMIC DEVELOPMENT SERVICES DEPARTMENT



TECHNICAL SERVICES DEPARTMENT

MUNICIPAL GOVERNANCE

The Municipality has a total number of 27 elected councilors representing their respective political parties in the Municipal Governance. The Municipal governance is proportionally represented as follows:-

ANC - 11
IFP - 13
NFP - 03

The Executive Committee (EXCO) is made up of five (5) councilors including the Mayor, Deputy Mayor, Speaker (ex officio), and three (3) other Executive members. The EXCO members mostly chair Portfolio Committees, which ensures necessary strategic direction and active participation by all Municipal Councilors in the affairs of the Municipality.

FULL COUNCIL AS AT 2011/12

	NAME & SURNAME	ROLE	WARD
1	Cllr. B.Z Mncadi-Mpanza	Mayor	11
2	Cllr. T.O Ndlela	Deputy Mayor	05
3	Cllr. B.M Ngcobo	Speaker	04
4	Cllr. AT. Ntuli	Councilor	06
5	Cllr. S.O Sibiya	PR- Councilor	02
6	Cllr. B.W Sibiya	Councilor	07
7	Cllr. S.A Majola	Councilor	08
8	Cllr. B.B Ndimma	PR- Councilor	09
9	Cllr. S.B. Manyathi	Councilor	02
10	Cllr. B.V Khanyile	PR- Councilor	11

11	Cllr B.N Buthelezi	PR- Councilor	10
12	Cllr M.B.E Ntombela	PR- Councilor	03
13	Cllr. B.B Dlomo	Councilor	03
14	Cllr. S.M Bhengu	Councilor	14
15	Cllr N.P.N Magubane	PR- Councilor	10
16	Cllr. NFJ Nzuza	PR- Councilor	06
17	Cllr. S Buthelezi	PR- Councilor	11
18	Cllr. J.B Ntuli	PR- Councilor	06
19	Cllr M.B.E Ntombela	Councilor	01
20	Cllr S.E Mhlongo	Councilor	10
21	Cllr. T.T Dlamini	Councilor	09
22	Cllr. N.R Xulu	PR- Councilor	11
23	Cllr F.K Magubane	PR- Councilor	06
24	Cllr H.R Ntombela	PR- Councilor	05
25	Cllr P.R Dlamini	Councilor	05
26	Cllr. C.M Mthlane	Councilor	12
27	Cllr. V.S Lushozi	Councilor	13

4.1. EXCO MEMBERS AS AT 2011/12

1	Cllr. BZ Mncadi-Mpanza	Mayor-Chairperson
2	Cllr TO Ndlela	Deputy Mayor-Member
3	Cllr. BM Ngcobo	Speaker- Ex-officio
4	Cllr. SO Sibiya	Member
5	Cllr. BW Sibiya	Member
6	Cllr. AT Ntuli	Member

MPAC AS AT 2011/12

1	Cllr BV Khanyile	Chairperson
2	Cllr NPN Magubane	Member
3	Cllr BB Dlomo	Member
4	Cllr BB Ndimba	Member
5	Cllr HR Ntombela	Member

PORTFOLIO MEMBERS

FINANCE PORTFOLIO AS AT 2011/12

1	Cllr BZ. Mncadi-Mpanza	Chairperson
2	Cllr SM Bhengu	Member
3	Cllr NPN Magubane	Member
4	Cllr CM Mthlana	Member
5	Cllr B Buthelezi	Member

TECHNICAL SERVICES PORTFOLIO

1	Cllr BW. Sibiya	Chairperson
2	Cllr SA. Majola	Member
3	Cllr TT. Dlamini	Member
4	Cllr NFJ. Nzuza	Member
5	Cllr VS. Lushozi	Member
6	Cllr SO. Sibiya	Member

CORPORATE SERVICES PORTFOLIO

1	Cllr BB. Ndimma	Chairperson
2	Cllr S. Buthelezi	Member
3	Cllr L. Ntombela	Member
4	Cllr FK. Magubane	Member
5	Cllr SE. Mhlongo	Member

COMMUNITY & ECONOMIC DEVELOPMENT SERVICES PORTFOLIO

1	Cllr TO. Ndlela	Chairperson
2	Cllr NR. Xulu	Member
3	Cllr HR. Ntombela	Member
4	Cllr BV. Khanyile	Member
5	Cllr PR. Dlamini	Member

DEVELOPMENT PLANNING PORTFOLIO

1	Cllr AT. Ntuli	Chairperson
2	Cllr BB. Dlomo	Member
3	Cllr JB. Ntuli	Member
4	Cllr SB. Manyathi	Member
5	Cllr MBE. Ntombela	Member

STANDING RULES AND ORDERS COMMITTEE

OVERSIGHT /RULES

1	Cllr BM Ngcobo	Chairperson
2	Cllr PR Dlamini	Member
3	Cllr S Manyathi	Member
4	Cllr S Buthelezi	Member
5	Cllr BV Khanyile	Member

MANCO MEMBERS

1	Mr. ME. Ngonyama (Chairperson))	Municipal Manager
2	Mr. NJ Mhlongo	Acting Director Technical Services
3	Mr. DB. Mlondo	Acting Director Community Services
4	Ms NVF. Msane	Director: Corporate Services
5	Mr. S Myeza	CFO-Guarantee Trust ((Outsourced)
6	Mrs MB Mavimbela	Manager MM's Office

AUDIT COMMITTEE MEMBERS

1	Mr. LL Langalibalela	Chairperson
2	Mr VL Mtshali	Member
3	Ms NH Thungo	Member

PERFORMANCE AUDIT COMMITTEE MEMBERS

1	Mr DD Mncwabe	Chairperson
2	Ms ZP Tenza	Member
3	Mr HT Mbatha	Member

OTHER PARTNERSHIP OF NKANDLA LOCAL MUNICIPALITY

ERADICATION/ALLEVIATION OF POVERTY

We have adopted a programme from the office of the Premier (Sukuma Sakhe War Rooms) where all Government Departments, Municipal Leadership including officials. There is a scheduled meeting where all community challenges are dealt with profoundly to find solutions.

MASIBAMBISANE INITIATIVE

This is an initiative by the President of the Republic of South Africa to fight poverty to community participation programmes. We are involved in agricultural projects. As Local Municipality, we fully involved in the programme supporting in community projects identification and by providing fencing materials to some projects.

EXTENDED PUBLIC WORKS PROGRAMME (EPWP)

The Department of Public works has a number of initiatives regarding the employment of the unemployed members of our communities. The Department has appointed Indalo Yethu, the service provider to keep our town clean. It has been employed 336 laborers who are reducing carbon footprint of the town and making missing environmental and health impacts. In the longer term, this project will be handed over to the municipality. The town is now among the cleanest town hence the programme.

HOUSING PROJECTS

Through constant engagement with the Human Settlement Department, the Municipality has received the approval of nine (9) housing projects in nine wards

Machunwini Rural Housing Project	(Ward 2)	-	1000 units
Dlomo Rural Housing Project	(Ward 3)	-	1000 units
Zondi Roral Housing Project	(Ward 3)	-	1000 units
Mangidini Housing Project	(Ward 6)	-	1000 units
Mpungose South Housing Project	(Ward 7)	-	1000 units
Qhudeni Rural Housing Project	(Ward 8)	-	500 units
Ngono Rural Housing Project	(Ward 9)	-	1000 units
Godide Housing Project	(Ward 12)	-	500 units
KwaMagwaza Housing Project	(Ward 13)	-	1000 units

The processes are underway and applications for trench one (engineering part) has been submitted and awaiting trench 2 which is a construction phase.

BUY BACK CENTRE

The Municipality has approved the proposal to build buy back centre, wherein the community will sell all old /unused material to generate income and support themselves and families. The construction of this project will start soon since the contractor will be appointed anytime from now.

ELECTRIFICATION PROJECTS

The Municipality receives schedule 6 allocations from the Department of Minerals & Energy while ESKOM receives schedule 7. The Municipality has under spend on the previous year's budgets. The Department indicated that it would withhold all allocation if the Municipality fails to spend. We had to fast track all our programmes to be inline with the required expenditure pattern of the DME to qualify for more funding. We are successful because all the budget under this schedule has been spend. For example, Mfongosi project that had a budget of R10m we have gone beyond the said budget and have requested additional funding to complete the project.

The Municipal Manager and the Mayor requested an appointment with DME to negotiate the funding of these projects. Further to this was an initiative of the Mayor and the Municipal Manager to find alternative source of energy such as Solar panels system, which the Council has been granted an amount of R150m for grid and R60m for non-grid electrification through the upfront loading programmer. This programmer is funded by the said system through DBSA thereafter the Department of Mineral & Energy will pay for the loan for the next three years funding that is due to the Municipality which will be paid to DBSA on behalf of the Municipality. This is an achievement in terms of service delivery.

MUNICIPAL INFRASTRUCTURE GRANT

This was part of the Technical Services Department Service Delivery & Budget implementation Plan (SDBIP) however it is worth to note that the Municipality has had some challenges with regard to budget spending under MIG hence last year the Municipality was penalized R4m from its equitable share allocation.

CAPITAL PROJECTS IMPLEMENTED IN 2011/12

SMALL TOWN REHABILITATION	R14,578,245.01
UPGRADING OF SOLID WASTE SITE	R1,300,000.00
NKUNGUMATHE SPORTSFIELD PHASE II	No longer funded through MIG since DEA has funded it
NXAMALALA SPORTSFIELD PHASE II	R2,100,000.00
KING CETSHWAYO CSC	R3,361,150.00
PHOLELA ACCESS ROAD	3,375,000.00
MAPHUTHU ACCESS LINK ROAD	R6,823,680.50
EZIMPISINI /KWAGUGU CSC	R3,361,150.00
MDLELANGA CSC	R3,361,150.00
MVUTSHINI CSC	R3,532,000.00
NDIKWE CAUSEWAY	R2,202,527.00
EZILOZINI CAUSEWAY	R3,504,283.00
UPGRADING OF CEMETRIES	R4,781,140.00

ROAD INFRASTRUCTURE BUSINESS PLAN

I have requested an independent company to assess our road infrastructure. However, we understood poor road network but it was necessary to conduct proper assessment.

We have received a well-prepared business plan, which we have already submitted to the Department of Public Works Nationally and the Provincial Department for funding.

KWA-ZULU –NATAL SMALL TOWN REHABILITATION PROJECTS

The road passing through town has been completed from the Grant funding we received from COGTA. Under the above programmer we submitted seven (7) business plans to GOGTA for a number of projects in including the following:-

- Upgrading of electrical infrastructure
- Nkandla Town main road phase ii
- Relocation of Nkandla Taxi Rank
- Establishment of rehabilitation of Nkandla Town access road and installation of water drainage system
- Nkandla Town Rental Housing
- Servicing of sites
- High-Tec water treatment plants

BUSINESS PLAN-COMMUNAL TOILETS

The business plan for communal toilets has been submitted to the Department of Environment & Water Affairs. However, there is a project currently underway but it will not cover the whole of Nkandla Municipal area. In some areas there is no water reticulation and as a result some communities have challenges with regard to healthy water supplies. Therefore, fast tracking of the type of toilets will prevent the spread of communicable diseases.

WARD COMMITTEES

Ward Committees are in place in all fourteen (14) wards, Ward Councilors report directly to the Speaker who must ensure that the ward committees system operates successfully. Ward Committees ensure that councilors and indeed the Council are readily available to respond to the community needs as they meet once a month.

DEVELOPMENT OF MUNICIPAL TURNAROUND STRATEGY (MTAS)

Municipalities were required to develop their own Turn-around Strategy to deal with critical issues with direct impact to service delivery.

The municipality was to come up with ten priorities for change (MTAS)

1. Basic service delivery
2. Filling of critical vacancies
3. Clean audit
4. Public Participation
5. Local Economic Development
6. Community health (HIV/AIDS, TB, etc) Strategy
7. Education & Training
8. Youth, Women & People with Disability Development Programmes
9. LED & Comprehensive Rural Development Programmes
10. Revenue and Debtors Management

CHAPTER 10: SECTION 123 OF THE MFMA

DISCLOSURES

1. SECTION 123 (1) (A) (I) OF MFMA: ALLOCATIONS RECEIVED FROM THE ORGAN OF THE STATE

EQUITABLE SHARE	40,191,000.00
MIG	17,887,000.00
FMG	1,500,00
MSIG	790,000
SPORTS GRANT	2,775,000
CYBERCADET GRANT	229,000.00
LIBRARY GRANT	233,340.00
SMALL TOWN REHABILITATION	4,000,000
QEDISIMO CO-OPERATIVE	2,750,000
ELECTRIFICATION GRANT	12,000,000
	82,355,340.00

2. SECTION 123 (1) (A) (II) , - SECTION 123 (1) (B) (I) & (II) OF MFMA: ALLOCATIONS RECEIVED FROM A MUNICIPAL ENTITY & ALLOCATIONS MADE

No allocations were received and made from a municipal entity, another Municipality or Organ of State.

3. SECTION 123 (1) (c) DETAILS ON HOW THE ALLOCATION WAS SPENT

MUNICIPAL INFRASTRUCTURE GRANT (MIG)

Balance unspent at beginning of year	8,561,236.00
Current year receipts	17,887,000.00
Conditions met - transferred to revenue	-19,576,038.00
Conditions still to be met - remain liabilities	6,872,198.00

FINANCE MANAGEMENT GRANT (FMG)

Balance unspent at beginning of year	288,208.00
Current year receipts	1,500,000.00
Conditions met - transferred to revenue	-1,586,984.00
Conditions still to be met - remain liabilities	201,224.00

MUNICIPAL SYSTEM IMPROVEMENT GRANT (MSIG)

Balance unspent at beginning of year	307,554.00
Current year receipts	790,000.00
Conditions met - transferred to revenue	-1,056,542.00
Conditions still to be met - remain liabilities	41,012.00

ELECTRIFICATION GRANT

Balance unspent at beginning of year	9,324,112.00
Current year receipts	12,000,000.00
Conditions met - transferred to revenue	-6,747,453.00
Conditions still to be met - remain liabilities	14,576,659.00

ELEARNING GRANT

Balance unspent at beginning of year	167,230.00
Current year receipts	-
Conditions met - transferred to revenue	1.00
Conditions still to be met - remain liabilities	167,231.00

SPORT AND RECREATION GRANT

Balance unspent at beginning of year	137,051.00
Current year receipts	2,775,000.00
Conditions met - transferred to revenue	-1,629,948.00
Conditions still to be met - remain liabilities	1,282,103.00

CYBER CADET GRANT

Balance unspent at beginning of year	54,213.00
Current year receipts	229,000.00
Conditions met - transferred to revenue	-94,560.00
Conditions still to be met - remain liabilities	188,653.00

QEDISIMO PROJECTS

Balance unspent at beginning of year	-
Current year receipts	2,750,000.00
Conditions met - transferred to revenue	-
Conditions still to be met - remain liabilities	2,750,000.00

FACILITY GRANT

Balance unspent at beginning of year	-
Current year receipts	750,000.00
Conditions met - transferred to revenue	-
Conditions still to be met - remain liabilities	750,000.00

LIBRARY GRANT

Balance unspent at beginning of year	-
Current year receipts	233,340.00
Conditions met - transferred to revenue	-183,169.00
Conditions still to be met - remain liabilities	50,171.00

SMALL TOWN REHABILITATION GRANT

Balance unspent at beginning of year	10,580,046.00
Current year receipts	4,000,000.00
Conditions met - transferred to revenue	-9,492,537.00
Conditions still to be met - remain liabilities	5,087,509.00

SECTION 123 (1) (D) (I) & (II): COMPLIANCE TO ALLOCATIONS RECEIVED FROM NATIONAL TREASURY & OTHER ORGANS OF STATE

The Municipality has complied with the allocation requirements/ conditions

SECTION 123 (1) (E) & (F): REASON FOR NON-COMPLIANCE OR DELAYS/ WITH-HOLDING OF FUNDS

The Municipality has complied with the allocation requirements/ conditions

SECTION 124 (1) (A) : SALARIES, ALLOWANCES AND BENEFITS OF POLITICAL OFFICE BEARERS

COUNCILORS REMUNERATION

Mayor's allowance	316,735.00
Deputy Mayor	253,210.00
Speaker	253,210.00
Executive Committee	711,989.00
Ordinary Councilors	3,336,980.00
Total Councilors' Remuneration	4,872,124.00

IN- KIND BENEFITS

The Mayor is provided with an office and a Municipal vehicle and cell-phone.

The Municipal salaries, allowances and benefits are in accordance with Section 219 of the Constitution.

SECTION 124 (1) (b) : ARREARS OWED BY INDIVIDUAL COUNCILLORS

There were no arrears owed by individual councilors.

SECTION 124 (1) (c) : SALARIES, ALLOWANCES AND BENEFITS OF

EMPLOYEE RELATED COSTS

Salaries & Wages	8,674,775.00
Contributions for UIF, pension and medical aids	1,560,511.00
Travel, motor car, other allowances	548,275.00
Housing benefits	61,980.00
Overtime payments	80,141.00
Bonus	546,479.00
Long service	81,687.00
Less: Employee costs included in other expenses	-
Total Employee Related Costs	11,553,847.00

The salaries, allowances and benefits are in accordance with the framework in s219 of the Constitution; hence, there are no deviations.

REMUNERATION OF THE MUNICIPAL MANAGER

Annual Remuneration	432,634.00	
Traveling Allowance	288,422.00	
Performance Bonuses		-
Other (Back pay)		-
Total	721,056.00	

REMUNERATION OF THE CHIEF FINANCIAL OFFICER

Annual Remuneration	354,665.00	
Traveling Allowance	99,000.00	
Performance Bonuses		-
Back pay Salary adjustment	150,026.00	
Other - GTZ Consulting Fees	799,556.00	
Total	1,403,246.00	

**REMUNERATION OF INDIVIDUAL
EXECUTIVE DIRECTORS**

Year ending 30 June 2012

	Community Services	Technical Services	Corporate Services
Annual Remuneration	-	408,139.00	124,607
Traveling Allowance	-	137,500.00	30,600
Bonus	-	-	-
Acting Allowance	-	2,781.00	-
Other(Back pay & Leave Pay)		125,718.00	116,984
		674,139.00	
			272,191
Total	-		

SECTION 125 (1) (B) & (F): CONTRIBUTIONS TO ORGANIZED LOCAL LABOUR

KWANALOGA

**SECTION 125 (1) (C):
AUDIT FEES,
PENSION, TAXES &
MEDICAL AID**

Audit Fees

Contributions for UIF, pension and medical aids

110 000.00

1,333,123.00

1,560,511.00

**SECTION 125 (2) (A)):
MUNICIPALITY BANK
ACCOUNTS**

**BANK DETAILS FOR THE
MUNICIPALITY**

BANK	ACCOUNT TYPE	OPENING BALANCE	CLOSING BALANCE
			27 821
ABSA	Conditional Grants	24,202,758.79	873,74
ABSA	Call Account	10,745,496.87	15,395,482.75
ABSA	MIG call Account	4,250,469.25	0
	Current Account		
ABSA	(Primary Account)	116,323	2,635,425

**SECTION 125 (2) (B):
INVESTMENTS**

Call Deposit /Investments	
Absa Call account	15,395,483.00
ABSA MIG call account	1.00
ABSA Conditional call accounts	27,821,874.00
Total Call Deposits	43,217,358.00

MATERIAL LOSSES

1. As disclosed in note 21.1 to the financial statements, electricity losses to the amount of R3,511,479 were incurred as a result of electricity bypass, meters with no movement, meters not loaded onto the system, poor collection, lack of credit control, free basic electricity and lack of capacity within the revenue section and technical services.

IRREGULAR EXPENDITURE

2. As disclosed in note 21 to the financial statements, irregular expenditure amounting to R29, 817,538 was incurred due to non-compliance with Municipal Supply Chain Management (MSCM) regulations.

FRUITLESS AND WASTEFUL EXPENDITURE

3. The municipality incurred fruitless and wasteful expenditure of R22, 651 as a result of legal fees as disclosed in note 21 of the financial statements.

Irregular expenditure is mainly as a result of bid committees not properly constituted, fruitless and wasteful expenditure is as a result of legal fees instituted because of the non payment of the creditor, another irregular expenditure is as a result of cash receipted but not banked.

Irregular expenditure for R28 192 831 was submitted to Council for condonation in June 2012. Cash not banked amounting to

R18 535, the official has been suspended pending investigation. Reports will be sent to COGTA and Auditor General before the end of November 2012.

SECTION 125 (2) (D): MATERIAL LOSSES & RECOVERED OR WRITTEN OFF

NIL

SECTION 125 (2) (E): PARTICULARS OF NON-COMPLIANCE WITH ANY SECTION OF THE MFMA

REFER TO CHAPTER 2: AUDITOR GENERAL'S REPORT

2011/12 MPAC ANNUAL REPORT

1. The MPAC is the committee of Council established in terms of section 79 of the Municipal Structures Act and MFMA, 129 to assist council to consider Municipality Annual Report and produce an Oversight Report. This report will fairly represent an oversight of the performance of the Municipality. The Committee has met to discuss issues with regard to performance of the municipality; however the date that was scheduled for the meeting here are the scheduled dates scheduled by the committee to consider the municipal performance.

SCHEDULED DATES ARE AS FOLLOWS:

28 August 2012	05 February 2013
04 September 2012	26 February 2013
25 September 2012	05 March 2013
09 October 2012	26 March 2013
30 October 2012	02 April 2013
06 November 2012	23 April 2013
27 November 2012	07 May 2013
04 December 2012	28 May 2013
08 January 2013	04 June 2013
29 January 2013	25 June 2013

It is also important to know that the scheduled dates were not all utilized due to, among others, the quorum of the members, agendas of the meetings and lack of administration staff to support MPAC.

2. ISSUES OF DISCUSSION

The MPAC during its sitting had to consider items as set out in the agenda which were of main concern to committee. It is also important to note that as the committee has a responsibility to call departments, when the need arises and there are specific items to be considered by the committee.

THE FOLLOWING ARE SOME THESE ITEMS:

3. PROGRESS REPORT FROM PLANNING AND DEVELOPMENT PORTFOLIO.

The Committee considered organogram, expenditure, where there are surpluses/deficits 2011/12, housing plans projects and actions taken against those contractors underperforming. Progress on town (mall) development and all Capital Projects on 2012/13.

3.1 REPORT ON THABZO AND MUMBO SERVICES

The MPAC committee requested information on issues of appointment of Thabzo Security Services. After consulting with officials and conducting a site visit to justify its locality it was concluded that Thabzo is originally from Emfongosi but is now a residence of Chwezi Area when compare to Mumbo Security services who is from Durban.

3.2 SDBIP FOR THE OFFICE MUNICIPAL MANAGER, CORPORATE SERVICES, FINANCE, COMMUNITY SERVICES AND TECHNICAL SERVICES

The MPAC invited all departments to report on SDBIP individually. The invitation was based on their performance and accountability in terms of the set targets an indication on how to correct those targets which were not met and provision of remedial action. The committee considered this report continuously and noted that the targets set were not smart and sometimes not achievable it emphasized the issue of not setting the targets as required by SMART principle.

3.3 AUDITOR GENERAL REPORT

The committee, after the Auditor General's report outcome, considered the report and noted in the report the irregular expenditure, Performance Indicators , internal control which as part of matters of emphasis. The committee resolved that the Management must develop an action plan to address matters raised by Auditor General. It was further resolved that the Municipality must minimize the use of section 36 on the MFMA. The municipality must be ready to achieve clean audit must use a plan as plan guide when dealing with issues raised by Auditor General to make sure that the Management goes far beyond the raised issues.

3.4 REVENUE GENERATION

During the presentation of AG report it was noted with concern that the Municipality is losing huge amount in electricity expenditure due to illegal connections. The committee is recommending that the Management to take drastic major to address the issue of electricity bay passing hence to consider the implementation of smart meters.

3.5 CHALLENGES

- Production and delivering of agendas
- Members of MPAC are not attending
- Shortage of support staff
- Office space

3.6 RECOMMENDATION BY THE COMMITTEE

That the Annual report be given to Ward Committees for consideration and comment

The community will have access to the report through ward committees' structures. It is imperative that ward committees structures meet before the final report is adopted by council every year.

The above challenges be considered as a matter of urgency as to ensure that the committee functions effectively

In conclusion, the committee would like to convey a word of appreciation to its members, council and official for the support during performance of i

CONCLUSION

The 2011/12 financial year marked the start of quarterly performance reviews for HODs .The Municipality will build on its success during the year and aim for even better Performance Management System during the 2012/13 financial year. It is also important to know that Performance Management, Financial Management and Good Governance can only be achieved if there is a good synergy between Municipal Departments. This is what the Municipality is working towards and with decisive leadership, it is sure to achieve it. The issues rose by Auditor –General (Action Plan) will be closely monitored and be used to guide the Municipality to clean audit.